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FAO REVIEW Vol. 2 No. 2 March-April 1969

LOW TIDE:

FOREIGN INVESTMENT IN THE THIRD WORLD

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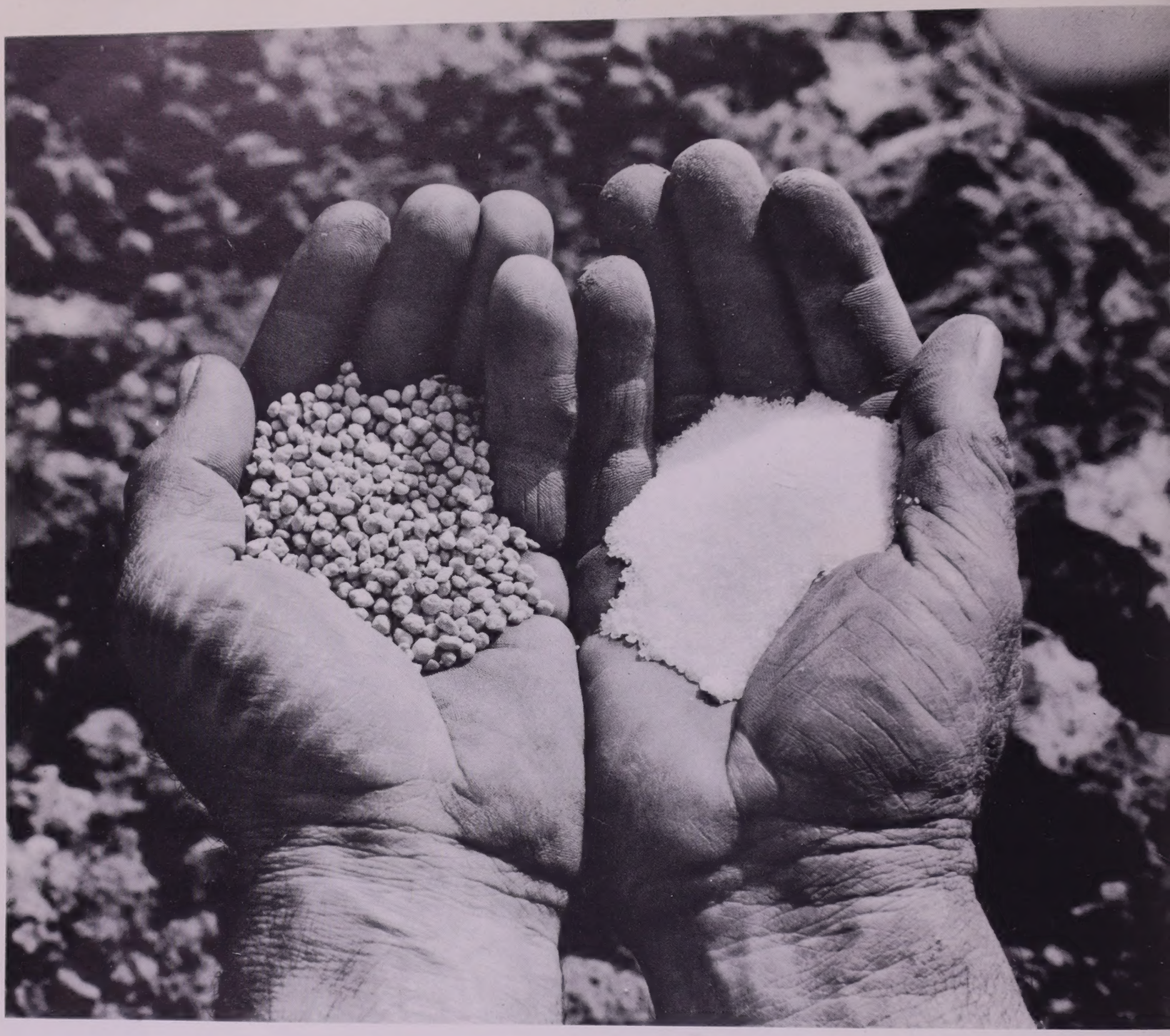

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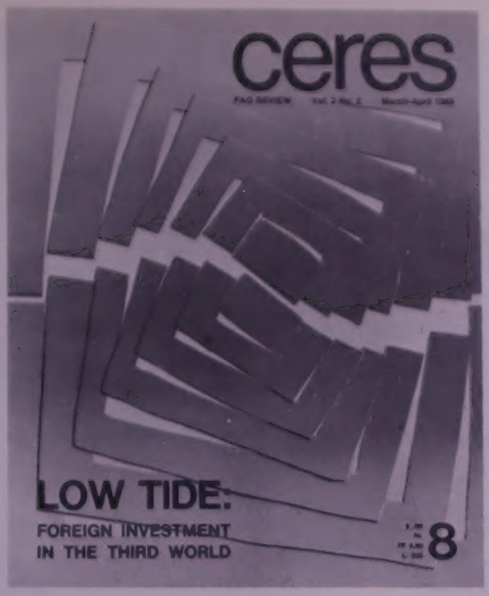

Low tide!
How can we reverse this trend? Firstly, by analyzing the difficulties and obstacles, and secondly by suggesting ways of accelerating the investment flow.

(Art work by Paula)

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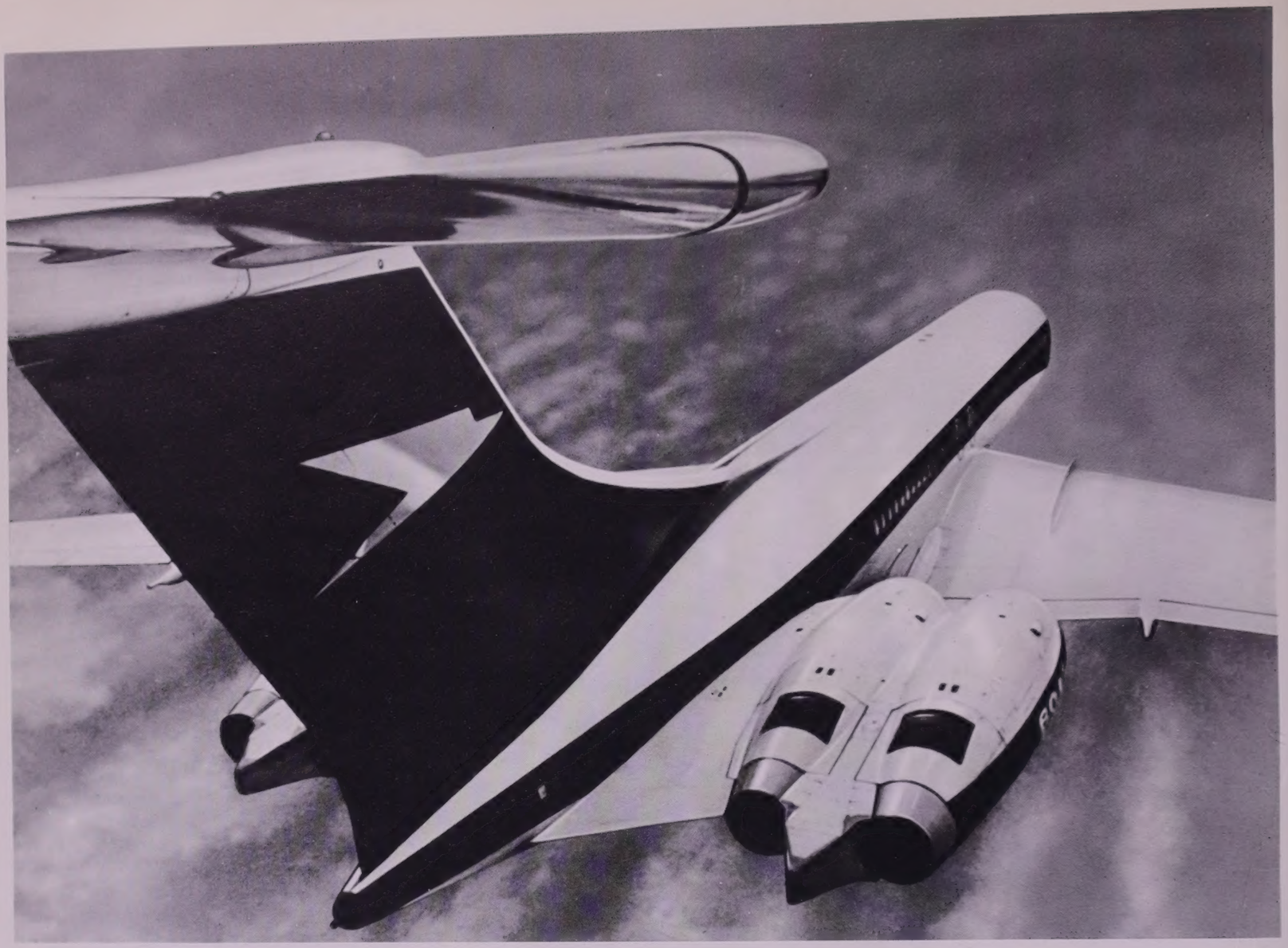

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AFRICA

■ Pan-African Cooperative Centre established

The Centre panafricain de coopérative, located on the premises of the former headquarters of the Union Africaine et Malgache in Cotonou, was opened recently and expects to begin its activities this year. Its purpose is to train cooperative leaders for work in the African continent. It was established following the pan-African labour conference held in 1967 in Cotonou in liaison with the Afro-American Labour Centre (CAAT).

world report

■ IDA France agricultural project in Dahomey

Through a joint operation of the IDA and the French Fund for Assistance and Cooperation (FAC), Dahomey will be granted a loan of $9.2 million for a project in the Hinvi region in the southern part of the country. The project provides for preparation of 14,826 acres for production of annual crops, particularly maize, groundnuts and cotton; improvement of another 14,826 acres for oil palms; construction of a palm oil plant with a minimum capacity of 70,000 tons per year, and construction of silos for maize storage. The project also foresees purchase of 300 head of cattle for development of beef production, planting of teak and cassia trees as windbreaks and firebreaks and for production of firewood and timber.

The project will be executed by the Société nationale pour le développement rural du Dahomey — SONADER, a state-operated company created in 1962 to develop Dahomey's agricultural production. SONADER employs only national personnel of a high level of competence and efficiency both at headquarters and in the field. It has already organized the planting, on a cooperative basis, of 32,124 acres of an improved variety of oil palms. The company will establish ten cooperatives in the project area and train the staff needed for management of the palm plantations and for agricultural extension services, and will supervise the activity of farmers working independently on the lands under annual crops.

This will enable 4,000 families to grow staple crops needed for their own subsistence as well as cash crops for sale.

In ten years, income from export of palm oil, cotton and groundnuts obtained within the framework of the project will reach about $2.4 million per year or 20 percent of the annual income from Dahomey's total exports in the last few years.

■ Mali's trade reorganization plans

At a recent meeting with Bamako businessmen Mali's Minister of Finance, Louis Nègre, outlined his country's trade reorganization plans.

Despite the demands of certain sectors of the opposition, government companies will be maintained and their operation streamlined as much as possible because, he explained, they performed functions which no private enterprise could undertake. They also employed over 10,000 workers, each of whom supported five to ten people, or almost half the population of Bamako.

The law of 25 March 1965, which discriminated against private business, had been replaced by a decree simplifying the exercise of the profession to a maximum. Although regular bookkeeping and suitable premises at locations assigned by the Administration were now required, businessmen were no longer obliged to join cooperatives.

The reorganization was needed because the activity of the private business sector (except for petroleum products) in 1967 accounted for only 47.3 percent of its 1964 total. On the other hand, in 1966-67 the state sector accounted for about 50 percent of total turnover (excluding petroleum products) or 75 percent including petroleum products.

LOUIS NÈGRE
Finance Minister of Mali

■ Algeria's agricultural enterprises

During the first quarter of 1969 the *Journal Officiel* of Algeria published the most significant reorganization of self-management in agriculture since the decrees of 1963. An addendum to those decrees, the reorganization meets a twofold aim: the limitation of state control and wider autonomy to independently managed enterprises.

The Ministry of Agriculture will be responsible hereafter for appointing and controlling the directors of its farms. Their management, however, is assigned to four bodies acting as representatives of a " workers' community ": the general assembly, the workers' council, the managing

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committee and the president, so that the farm becomes fully responsible for its own sound operation. At the same time, the workers will have the right to cultivate a small plot of land of five acres, and engage in some animal husbandry on the farm.

The reorganization affects 2,000 self-managing enterprises covering over 5,683,000 acres of fertile land where 180,000 agricultural workers are employed permanently, or an average of 2,842 acres and 1,277 workers per farm.

Under the new provisions part of the profits will be paid back to the workers for their labour and, in addition, they will receive productivity premiums. They will be granted a " statutory and minimum " advance during the year on this part of the income.

ASIA

■ *Growth of Japanese trade*

Japan's economy and trade are making spectacular progress, reported the *Bangkok World*. Japan's Minister of Finance, announced that in 1968 the country overtook France and Italy, becoming the world's fourth largest exporter, and that it expects to displace Great Britain from third place in a few years.

Although the larger portion of these exchanges was with western Europe and the United States, *Togo Presse* points out that Africa too has absorbed a very large share. In 1968 the figures for trade between Japan and Africa (excluding South Africa and Liberia) were as follows: Japanese exports totalled over $694.2 million, an increase of 10.6% compared to 1967, while imports exceeded $447 million, an increase of 27.2% over the previous year.

Trade with South Africa — holding fifteenth place among Japan's customers and tenth as a supplier — was particularly active last year. Japanese exports were: $169,811, a rise of 8.5%; imports reached $333,462, a rise of 24.7%. With respect to Liberia, Japan's sizable export turnover is due mainly to the sale of ships. Exports totalled $439,030 or 11.6% more and imports reached $17,279 or 40.9% more than the previous year.

The *Herald Tribune* notes that Japanese investment in Latin America at the end of March 1968 totalled $372 million, or 26.3% of the total in this region. The main share concerns Brazil where over 70 Japanese enterprises are engaged in the fields of finance, insurance, electronics, fisheries, machine tools, and in the building, automotive, steel, textile and food industries.

How the nations rank in economic growth

Average annual rise in real GNP per capita, 1962-67

The growth of real gross national product (GNP) per capita is a better measure of economic performance than dollar levels because, for one thing, conversion into dollars, using official exchange rates, inaccurately reflects internal prices. In dollar terms, the USA leads with a per capita GNP of $3,847; Sweden, $2,801; Canada, $2,686; Switzerland, $2,519; Denmark, $2,340. (courtesy of **Fortune**)

LATIN AMERICA

■ *Honduras timber & paper project*

The International Finance Corporation (IFC) will participate in preliminary surveys involving timber and paper pulp production in Honduras. A new company, the " Industria Papelera Centroamericana S.A. " (IPACA) will be responsible for conducting the necessary research and negotiations.

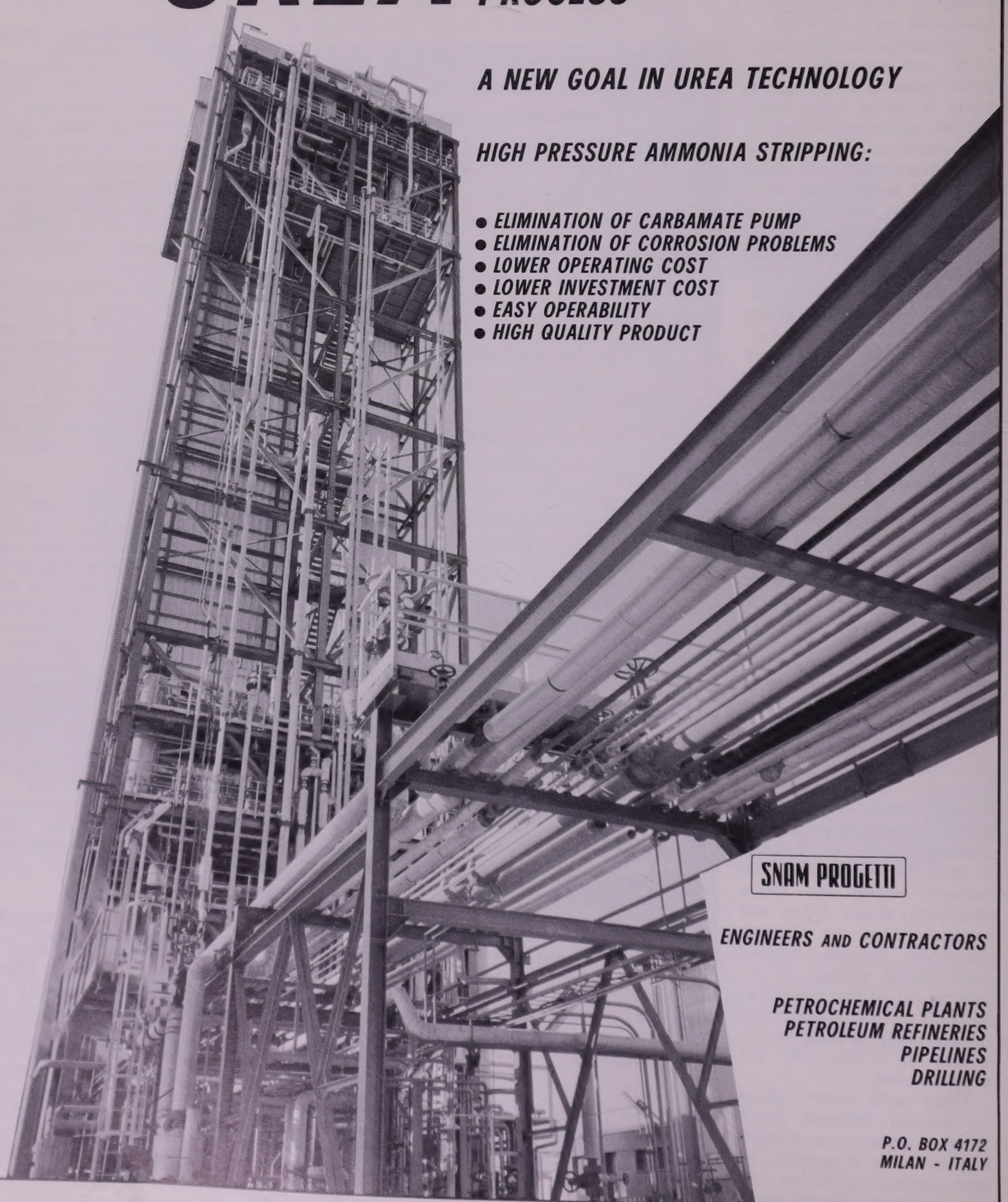
The project, which has the full support of the Government, aims at the acceleration of industrial development not only in Honduras but in all Central America by utilizing its natural wealth, and especially the 2,965,000 acres of the Olancho forest reserves.

The present capital of IPACA is $500,000, of which $50,000 come from IFC. The International Paper Company is providing most of the capital and assuming responsibility for management. The remainder is divided among the Banco Nacional de Fomento, the ADELA Investment Company, the Central American Bank for economic integration, the Standard Fruit Company and the United Fruit Company. If the survey recommends the project these organizations may consider additional financing, and other sources may also be sought.

■ *U.S. - Mexican desalinization plants*

A series of large atomic plants, producing 2,000 megawatts of electricity and 4.8 million cubic yards of fresh water each per day would meet water requirements in the arid zones on the western borders of Mexico and the United States, reported a team of experts. For three years this team, appointed by the United States and Mex-

UREA STRIPPING a new SNAM PROGETTI PROCESS



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ican governments and the International Atomic Energy Agency has studied the region, which covers southern California and Arizona in the United States and the states of Baja California and Sonora in Mexico.

Although it is crossed by the Colorado river, this semi-tropical desert region suffers from an acute water shortage. The deficit is expected to increase from 7.3 million cubic yards per day in 1980 to 22 million cubic yards per day in 1995, even if agriculture is not developed there.

In their survey the experts took into account the estimated investment and operation costs of the complete installations and water piping systems based on both current and more advanced techniques. The use of the high power reactors of the future and the progress of desalinization methods will undoubtedly lead in the long run to an appreciable cut in the costs of power and desalinization.

The most suitable locations for the plants appear to be on the frontier east of San Luis Rio Colorado, or near El Golfo de Santa Clara, or between the two near Riito. The final choice will be determined by a more detailed economic evaluation of all the site factors including geology and seismology.

The investment for the initial installations will probably come to between $850,000 and $1.2 million. The cost of the water to be provided to a large distribution centre is estimated at about 4 to 10 cents per cubic yard depending on the site selected, the pipeline route and the interest rates involved.

On the basis of communications and discussions by the colloquium organized by the IAEA in Madrid it appears that these plants could begin operating around 1980.

It may be noted that, well ahead of that date, the desalinization plant of Tijuana (Baja California, Mexico) began operations toward the end of November 1968 after completion of work lasting for a period of three years.

■ *Hydroelectric complex in Argentina*

A World Bank loan of $82 million will help Argentina to establish the largest hydroelectric complex ever built in the country. It is to be located at El Chocon-Cerros Colorados, and will have a production capacity of 1,650 megawatts. In the first stage the World Bank loan will make it possible to reach a provisional capacity of 600 MW. Most of this production will be used in the Buenos Aires coastal area where the largest part of the population, industry and business is concentrated and which accounts for about 70% of all electricity consumption in Argentina.

The El Chocon project includes a dam on the Limay in northern Patagonia, an electric power plant consisting of three units of 200 MW each, and a 700-mile power-line linking this installation to Buenos Aires. Commercial operations are expected to begin around the middle of 1973.

At the same time work will begin at Portozuelo Grande to regulate the flow of the Neuquen river. Together with El Chocon, they will constitute the first part of the El Chocon-Cerros Colorados complex. The second part is planned for 1972-78 and includes installation of three additional 200 MW units at the El Chocon plant and a catchment basin equipped with a 450 MW hydroelectric plant located at Planicie Banderita on the Neuquen river.

The World Bank loan will be turned over to the Hidroelectrica Norpatagonica S.A. (Hidronor), a company recently established to execute this project. The loan, which is guaranteed by the Argentine Republic, will run for 25 years at a rate of 6.5% with a six-year interest franchise.

Four other financial institutions, among them the Banca Commerciale of Milan Group, have also agreed to participate in the loan with a total contribution of $800,000.

NEAR EAST

■ *World's first natural gas liquefying plant*

The Esso Standard Libya Inc. recently completed installation of a large natural gas liquefying plant at Marsa el-Brega, worth over $350 million, according to the weekly *Jeune Afrique*. The first of its kind anywhere, it uses natural gas from the deposits of Zeiten and Raguba (725,000 barrels of crude oil per day). The gas, which was formerly burned, is now pressure-pumped by a 109-mile gas pipeline to Marsa el-Brega where it is liquefied by refrigeration at —170°F and then transported by LNG tankers to Spain and Italy.

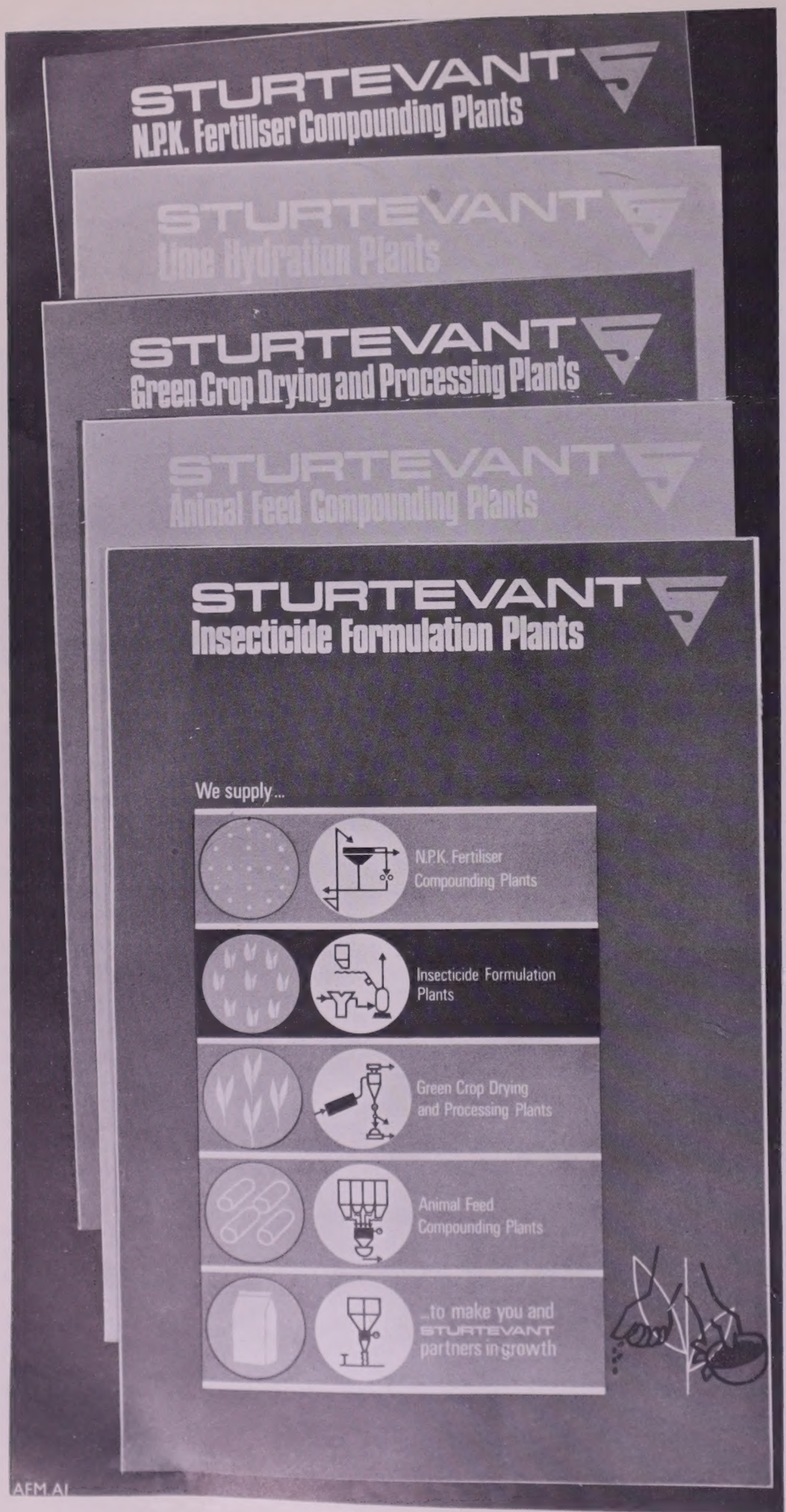
This operation constitutes another milestone in Libya's spectacular growth in recent years, placing the country sixth among the world's crude oil producers, thanks to a 49.2 percent output rise between 1967 and 1968.

AMSTERDAM: THE TWO FACES OF FOREIGN INVESTMENT

A Panel on Foreign Investment in Developing Countries met in Amsterdam under the auspices of the United Nations, with the Netherlands Government acting as host.

Grouped together around the same table, leading figures from governments in developing countries (left), leading members of a cross section of the business community in industrialized countries (right) and officials of international organizations held discussions during five days. They concluded that private foreign investment is playing an important role in the economic growth of the developing countries by supplying them not only with much needed capital, but also with managerial and technological know-how, but that investment must find its place within the framework of national development programmes and policies.

The Group acknowledged the fact that governments of host countries are the best judges of their development objectives and priorities and stated that joint ventures ideally provide a highly desirable arrangement for bringing together foreign private capital, host governments and local entrepreneurs.



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opinion

always the loser

Daouda Badarou, Minister of Foreign fairs for Dahomey in the Canadian ternational Development Agency's In- rnational Development

It is perfectly obvious that the increase our agricultural resources does not rve to enrich us. Whether we are lling our raw materials or buying man- actured products, whichever it may , the prices are always imposed on us, d always to our disadvantage.

strange operators

A Zambian representative at the Com- onwealth Conference, published in rican Development

Genuine investors are granted a tax liday in Zambia. But the government s learned by experience to be wary of reign investors who depend on local ance for backing, undercut native rchants, and pull out, having invested ir £100 in the Zambian economy to ke £300 from it.

necessary evil

From the Bangkok Bank Monthly view

There usually are many middlemen olved in the marketing process before products reach the consumer. In sequence the marketing costs increase each step, from the farm to the final sumer. . .

The farmers hardly ever obtain fair prices for their products. They have little, if any, bargaining power with the middlemen who, more often than not, happen to be their creditors. Farm products have to be disposed of as soon as possible after the harvesting as, in most cases, the farmers do not have storage facilities. Consequently they are forced to make quick sales in order to have at least some cash available. . .

Even if the government or a farmers' cooperative should venture into the marketing business it is doubtful whether they could do it cheaper and more efficiently than the middlemen. Furthermore government officials are notorious for their bureaucratic practices. Although this is a gross generalization, it is nevertheless sadly true.

...bearing gifts?

Galo Plaza, of the Organization of American States in International Commerce

A semantic cloud hangs over United States aid programmes and makes it difficult to see them as they really are. Most U.S. aid under the Alliance for Progress is not a gift, as is commonly believed. By far, the largest proportion of external financing received by Latin America is in the form of loans that are being repaid. In the past seven years, they have earned the U.S. $734 million in interest. Total amortization and interest payments have amounted to about $2.9 thousand million. In other words, the cooperative development effort of the Alliance nations benefits the lender as well as the borrower.

As a matter of fact, it is not at all unreasonable to turn the picture around, and think about the benefits accruing to the United States as a result of what we call aid. In the past seven years, the U.S. official sector has disbursed nearly $6 thousand million in credits to Latin America. Nearly all of this is being spent in the United States on United States goods. In this way, they help create jobs for U.S. workers. They generate earnings for U.S. manufacturing enterprises and their stockholders, and taxable income for the U.S. Government. They give the U.S. a surplus in its balance of payments with Latin America.

A large segment of American industry benefits from Export-Import Bank and AID credits for financing overseas exports. Whether the sale is of an entire steel mill to Brazil, or a small printing press to Guatemala, United States suppliers are important beneficiaries.

cultural invasion

Russell Train, president of the Conservation Foundation, in The Christian Science Monitor

The adverse environmental consequences of much well-accepted technological progress are perhaps most readily and dramatically seen in international development programmes where alien technology and alien goals interact with traditional culture and values.

Developing countries are defenceless before the self-assured wisdom of western planners. We have a very heavy moral obligation to assess the full range of consequences of those international development programmes, both bilateral and multilateral, which we have undertaken so confidently. . .

the rich have it

Philippe Simonnot in Le Monde

From 1965 to 1968 Latin America received $1.1 thousand million in capital and " payed out " $5.4 thousand million in profits, a sizeable deficit balance of $4.3 thousand million. In the same period western Europe had a favourable balance totalling $800 million. In short, it looks as if the poor countries, during these four years, had partly financed — through the United States — the development of the rich countries of western Europe

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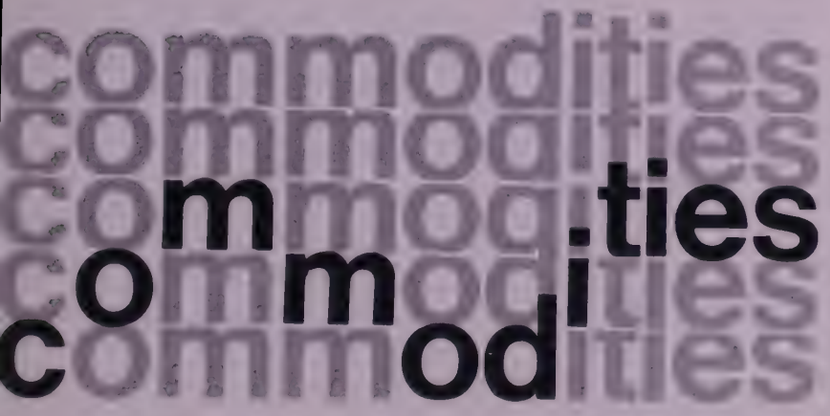
Bananas - the world outlook for 1972

World trade in bananas rose by 3% and earned roughly $500 million for the exporting countries in 1968 and despite serious problems affecting this highly perishable fruit, such as falling prices, trade restrictions and surpluses, all available evidence points to a vast expansion of production for export in the near future.

Total world exports amounted to 5,600,000 tons in 1968 and, according to the latest projections prepared by FAO, total world export availabilities for 1972 are estimated at 7.6 to 9.1 million tons.



Taking into consideration adverse circumstances which could modify the upper figure, the minimum one is very likely to be achieved. In most instances, expansion plans are already being put into effect and even a sharp fall in prices might not have an immediate influence on the reduction of plantings.

Low cost producers in particular might be more likely to maintain output, at least in the short term, in the hope of driving their high cost competitors out of the market. It is difficult to make assumptions with regard to export prices but it is understood that many Central American producing countries have planned their expansion on the expectation of substantially lower f.o.b. returns than prevailing in 1966-67, feeling that reduced costs and increased sales tonnage could compensate for lower unit returns.

The world import demand for 1972 (excluding the U.S.S.R. and Eastern Europe) could range from 6.2 million tons at constant prices to 7.9 million tons with a fall of 30% in retail prices. Even at the latter level there would still be a substantial surplus, compared with the highest export availability figure of 9.1 million tons. But the projected surplus, already partly absorbed by an expected lower production, could be further reduced by possibilities of creating new demands — by developing new markets, lowering or removing restrictions on access to existing ones and by aggressive sales promotion such as brand advertising and quality improvement. And technological improvements, particularly in the packaging field, could have the same favourable impact on demand as the change from bunches to cartons.

The trade is also looking for ways to utilize surplus and also bananas which do not meet the export standards.

But preference for fresh fruit, and the high cost of processing are limiting the possibilities. There is hope on one particular front, the utilization of bananas and plantains, either fresh or dried, for livestock feeding, mostly for cattle and pigs, and to a lesser extent for goats and sheep.

The expansion of production in Central America has been the outstanding feature in the world banana situation in recent years. It almost recovered its former dominant position, thanks to successful planting of new Cavendish varieties, immune to Panama disease and resistant to wind damage. Exports rose from 1.2 to 1.7 million tons between 1962 and 1967, and to 2 million in 1968 representing a 15% rise over the previous year. Costa Rica, Honduras and Panama recorded the largest increases. Total production for the area for 1972 is estimated at 3.2 to 4.2 million tons, with the highest expansion in Honduras and Costa Rica.

South America's share of the world banana market, which rose from about 20 to 40% in 1963, fell to 33% in 1966 and 1967, with Ecuador, however, emerging as the world's leading exporter. Despite increasing competition from Central America, Ecuador, with exports at 1,242,300 tons in 1968, was able to maintain its place by diversifying its markets, and by converting from the Gros Michel variety to the more popular and higher priced Cavendish. Ecuador is expected to maintain exportable production through 1972 at a minimum level of 1.4 to 1.5 million tons a year, which would provide an adequate reserve to meet most contingencies including substantial increases for her new outlets — Japan, the U.S.S.R. and eastern Europe.

While export production in Colombia and Brazil is not expected to rise because of limited markets, Surinam has developed a banana export industry in the past four-five years, and the Government has signed a contract with the United Fruit Company to market all its exportable fruit Exports reached 35,000 tons by the end of 1968, and are expected to rise to 40,000 tons by 1972.

Export availabilities for the whole of South America have been estimated to range by 1972 from 1 to 2.2 million tons.

■ *European markets*

Production in the French Antilles is particularly prone to cyclone losses. Limited market outlets and an uneven production record indicate a rather moderate growth rate. Export availabilities for 1972 for Martinique and Guadeloupe are estimated at 250,000 and 150,000 tons respectively.

In Africa, the Ivory Coast production is unlikely to rise significantly: limited market outlets have led to stabilization of production and the Government's efforts seem to be directed at improving productive efficiency rather than increasing output.

Cameroon's exports have fallen drastically in the past five years from 130,000 tons to 50,000. A major factor in this decline was the loss of Commonwealth preferences for West Cameroon, but there were others, such as the spread of disease and production changeovers. Cameroon has applied for assistance to the European Development Fund (FED) to revitalize its banana industry.

Madagascar's exports, geared entirely to the French market, have suffered as a result of the closure of the Suez Canal, and exports might not exceed 40,000 tons in 1972. Preliminary estimates for 1968 total 25,000 tons.

Since 1967, Jamaica and the Windward Islands have exported to the United Kingdom an allocated quota of roughly 200,000 and 180,000 tons respectively. Both areas export almost exclusively to the United Kingdom where they receive the benefit of Commonwealth preference and are protected from competition by a ban on imports

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from the dollar area in excess of 4,000 tons. On the other hand there is little possibility of their expanding exports to other areas, because of their cost structure. Bananas are the most important export item of the Windward Islands, which is one of the few remaining areas still shipping in bunches. This means that Windward exports include stem weight, and that on the net weight basis the export figure for 1967 was 130,000 tons rather than 160,000.

■ *Far East*

The region most likely to expand banana production for export during the next four to five years is the Far East, to supply the Japanese market. Japan's 33% rise in imports in 1968 constitutes the most spectacular development of that year — particularly since it followed upon a 14% increase in 1967 — replacing the Federal Republic of Germany as the world's second largest banana importer, with 640,000 tons, after the United States (1,687,000 tons). The Federal Republic is now in third place with 555,000.

An important factor in this development was most likely the 5% reduction in the import duty on bananas (from 70 to 65%) which came into effect on 1 January 1968, followed by another 5% tariff reduction on 1 January 1969.

China (Taiwan) supplies the bulk of the Japanese market and despite heavy typhoon losses during the first half of 1968, exports reached 385,000 tons. Taiwan is currently intensifying production and production techniques and has begun the changeover from baskets to cartons.

In the Philippines, an independent planter programme developed by the Standard Fruit Company is nearing the first stage of completion. Approximately 6,000 acres have been planted to Giant Cavendish bananas, shipments have already begun and by the end of 1969 or early 1970 the company hopes to reach 100,000 tons per year, in cartons, enough to load one ship per week to Japan. The Philippines seem ideally suited for supplying bananas to Japan, being at a shipping distance of three or four days only.

Other Asian countries are keenly interested in exporting to Japan. India, a major producer but an insignificant exporter until now, has set an export target of 50,000 tons for 1970; Thailand is making attractive offers to companies to establish large-scale banana production for export, and Malaysia too is seeking the Japanese market. It is known that the United Fruit Company is also interested in establishing a supply source in the Far East, which might be in either of these two countries or the Philippines. But although the Japanese market offers a great potential, it is likely to be supplied increasingly by producing countries of the southeast Asian region.

Somalia, greatly hampered in its exports by the closure of the Suez Canal, has nevertheless maintained its shipments to Italy around the Cape of Good Hope at a relatively high level. The preferential tariff treatment enjoyed by Somalia on the Italian market — 30 lire a kilogramme (i.e. $48 per ton) up to 100,000 tons instead of 90 lire — expires on 31 December 1969. But Somalia will still have a preference over third country suppliers since it is not subject to the EEC common external tariff of 20%.

Its present marketing structure, completely geared to the Italian outlet, makes it hard for a country almost entirely dependent on bananas for its foreign earnings to seek new markets at this time. It can be assumed therefore that Somalia will continue to dispose of around 80,000-100,000 tons for its traditional customer and that its exportable production by 1972 will not rise above 130,000-150,000 tons.

Production in Spain's Canary Islands has increased significantly in recent years but shipments to foreign countries have declined from 123,000 tons in 1960 to 52,000 in 1967. This was partly due to rising consumption in mainland Spain as a result of higher living standards and to the Islands losing ground to competitors on the Scandinavian, German, British and other western European markets. It is estimated that the Islands' total exportable production over the next four years will level off at around 400,000-450,000 tons — of which nearly 40 to 50,000 tons will go to foreign markets. Total exports including domestic shipments amounted to 360,000 tons in 1968.

The rest of the banana exporting countries, including Fiji, Samoa, the Cook Islands, Ethiopia, Lebanon, Jordan and Israel, are expected to total 200,000 tons by 1972.

■ *USSR & eastern Europe*

Producing and consuming countries are considering various possible ways of bridging the gap between potential export availabilities and import demand other than by heavy and, in many cases, possibly disastrous reductions in export prices. Among these, the search for new markets, processing of surpluses for other uses, removal of trade restrictions and possible international arrangements.

Though in many importing areas consumption of fresh fruit has reached the saturation point with about 9 kilogrammes per capita per year, there are other hopeful prospects besides the Japanese market: the opening up of the U.S.S.R. and eastern European countries, where banana imports have risen by 15% annually during the past five years. According to interest expressed by these countries in larger imports of tropical fruit and particularly bananas, if there is further liberalization of the market, imports could rise to about 200,000-300,000 by 1972. The total for 1968 was 85,000 tons for the whole area.

Were all trade controls to be removed, conclude FAO experts, world trade in bananas could rise as much as 500,000 tons per year, and the theoretical impact of removal of import duties and major taxes alone would approximate an increase of 280,000 tons per year. *M. B.*

Banana production and demand, 1972

Estimated export availabilities by regions	thousand tons		
Central America and Dominican Republic	3 170	to	4 170
South America	1 940	to	2 190
Suppliers to French market		650	
Suppliers to United Kingdom market		400	
Far East	750	to	900
Other major exporters	530	to	600
Rest of the world		200	
World total	7 640	to	9 110

Projected import demand by regions	at constant retail price	at 30% fall
	thousand tons	
Western Europe	2 902	3 655
EEC	1 701	2 185
(of which France)	(490)	(595)
United Kingdom	384	463
Other west. Europe	817	1 007
North America	1 941	2 572
South America	265	295
North Africa and Near East	102	133
Japan	670	888
Rest of the world	300	360
World total	6 180	7 903

These figures exclude Mainland China on the export side and the U.S.S.R. and eastern Europe on the import side.

Sometime in the seventies a zero hour will strike

If the flow of capital is not increased repayment of debts and interest payments will equal the rate of assistance to developing nations

by **DAVID HOROWITZ**

The race of the underdeveloped countries against time, the race to narrow the gap between them and the developed nations, cannot be won if investment per head remains at its present level.

The distance in investment between the developed and underdeveloped parts of the world is now so wide that the potential for development cannot be realized; the gap in standards of living and social and political stability seems destined to grow wider.

The yearly net capital investment per head today is $213 in the developed countries and $17 in the developing states, a ratio of 1 to 12.5, which, if perpetuated, provides a most depressing outlook for the future.

The problem of capital supply is a crucial one for the two thirds of mankind in the developing world.

The industrialized, developed economy of the west is based on the formation of capital by ruthless lowering of the standards of life of broad sections of the population in the 18th and 19th centuries. Such a solution is not available, to the same extent, to the underdeveloped nations because the minimum subsistence level for keeping body and soul together is already so low that not much more can be squeezed out for investment. Moreover, modern technology magnifies the capital requirements for investment. Further, even now, some 80% of all capital formation in the underdeveloped nations is derived from internal sources of saving and accumulation of capital.

This apparently positive situation is not an unmixed blessing. It implies a reduction in consumption of local products as capital goods are, generally, imported.

Paradoxical as it may seem, in the underdeveloped worl it is almost as important to finance primary consumption a it is to finance development, for the driving force for an stepping-up of production is, first and foremost, a large market. Higher consumption spurs demand, in the initia stages of development, and allows for the establishment o many enterprises whose possibility is predicated on economie of scale.

The experience of countries presented as success storie in development shows that their development is based, abov all else, on effective demand serving as a basis for economie of scale in numerous industries. Rising levels of consumption moreover, prompt a rise in productivity and efficiency throug higher standards of nutrition and education.

While there was no alternative in the 18th and 19t centuries to internal formation of capital, today such a alternative exists — the simple device of transfer of capita In a later period, the hardship of primary accumulation o capital was remarkably mitigated — by transfer of capit from more developed countries — in such new areas as th United States, Canada and Australia.

Today, capital resources are available and, furthermor there is an excess of production capacity in the west. Period recessions in the developed economies mainly affect industrie producing capital goods, reducing their output four to fiv times below that of other industries. A transfer of capit to underdeveloped nations, particularly in periods of recessio would help to iron out the violent fluctuations of boom an depression in the industrialized world.

At the present moment, the transfer of capital is stagna ing at some $10 thousand million a year net. Such stagnatio is practically tantamount to retrogression, taking into accoun 1) the rapid rise of population in the developing nation which reduces the capital transferred per head of populatio

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David Horowitz, *Governor of the Bank of Israel since 1954, is an active participant to UNCTAD meetings, a former journalist, and the author of several books on economic questions, among which* Hemispheres North and South *and the* Economics of Israel.

) the decline of prices of primary products and the mounting rices of capital goods and industrial products, which erode he real value of the capital transferred. This net amount f transferred capital will decline with the growing burden f debt repayments.

One of the delusions which has to be dispelled is that he problem of the underdeveloped world can be solved by rivate investment. In the report of the DAC there is the ollowing statement: "Unfortunately, it appears that the ncrease in official net disbursements was more than offset y a reduction in private investment. This decline has taken lace despite increased efforts by governments in various eveloped countries to encourage foreign investment."

Private capital is not attracted to investment in the third orld because of low profitability, shortage of skilled labour, ack of scientific facilities, limited internal markets and igher risk.

Thus, governmental and international economic assistance ecomes an important instrument for the transfer of capital rom developed to underdeveloped nations. But such assis-ance is actually declining, measured by both the needs and he capacity of the developed nations.

So far as the capacity of the developed world is concern-d, out of a gross national product (GNP) of the developed orld of at least $1,560 thousand million in 1966, the mount devoted to the development of the third world was low as 0.62% after having risen to 0.72% in 1965. This decline in aid to underdeveloped nations as a share of the GNP of the developed world bears testimony to frustration futility and failure in this crucial period of human endeavour

In the light of these figures the problem confronting us becomes even more acute. Internal formation of capital in underdeveloped nations is necessarily limited by the low level of incomes per head. Where is the capital to come from?

Most of those countries — like Iran, Israel, the Republic of Korea, Malaysia, Mexico, Pakistan, Taiwan, Thailand, Tunisia, Venezuela and Yugoslavia — which were catalogued at the last meeting of the board of governors of the World Bank as successes in economic growth, are clear testimonies that investment, although not the only condition, is one of the main preconditions of development.

The flow of capital to underdeveloped nations as a share of the GNP is on the downward grade. The debt explosion will add momentum to this erosive process. Already, about half of the financial assistance to the underdeveloped nations is absorbed by repayment of debts, both principal and interest. Some time in the seventies a zero hour will strike, if the flow of capital is not increased, when repayment of debt and interest payments will equal the rate of that assistance to developing nations.

The developing nations have nearly reached saturation level so far as credit on commercial terms, even from the

Where's the capital to come from?

Average annual per capita incomes below $100 of the peoples of some of the poorer ountries. These figures make it starkly clear that significant capital formation cannot be hoped for from local savings.

urce U.N. Yearbook of National Accounts Statistics, 1966

.7 thousand million, or less than two thirds of one percent. oreover, a substantial proportion of that amount consisted commercial credits, such as the financing of exports and her similar short-term devices.

In 1962 the flow of financial resources to the under-veloped world constituted 0.76% of the GNP of the veloped countries, in 1963 it declined to 0.70%, in 1964 dropped further to 0.69% while, in 1966, it fell to as

World Bank, is concerned. Their creditworthiness is severe-ly affected by the burden of debts and may be affected even more if the device of rescheduling is applied The implication is that grants, or concessionary terms of loans, are imperative if a complete invalidation of aid is to be avoided

Obviously, more and not less investment is required if the developing world is ever to catch up with the developed world. Investment, however, depends largely on capital flow

and economic growth is the function of investment.

A new myth is now being propagated — that what is needed is not capital, but skill and know-how. There is no sense in minimizing the importance of technical assistance, but it should not be used as an excuse or substitute for a diminishing of capital flow. The very fact that technical assistance requires less capital is helpful in advancing this very important development activity. Within four years, technical assistance has increased by some 65% and capital transfers by only 8%. Technical assistance should not become a form of relieving and lightening the guilt complex of the developed world.

The problem is essentially political

Capital transfer remains the central problem of the economic growth of the developing world. The disparity between the demand and supply of capital is, doubtless, due to the fact that the present direction of the flow of capital is at variance with humanity's global needs.

The flow of capital is a clear-cut case of priorities. Some $39 thousand million of domestic fixed-interest securities have been launched on the capital markets of the world, plus some $3 thousand million of international and foreign securities. According to the UNCTAD secretariat report: "During the period 1960-66, there has been a substantial increase in the volume of net issues by both the public and private sectors of these countries. Public and private borrowing on a net basis rose from approximately $16.7 billion in 1960 to $39.2 billion in 1966." ($1 billion = 1 000 million).

The share of the developing nations in that gigantic accumulation of capital is negligible, limited to two or three countries with special conditions.

The 1967 OECD Review, "Development Assistance, Efforts and Policies," puts the case in unequivocal and striking terms: "The problem for the members of OECD's Development Assistance Commission is essentially one of the degree of priority which is being given to aid. Governments may consider as obstacles to increases of assistance such conditions as balance of payments difficulties, fear of overheating the economy with resultant inflation and budgetary limitations. The last item is merely a polite way of saying that domestic claims — such as more roadbuilding, agricultural support, defence, space exploration or more generous social security scales — take priority. Of course, one should not set these various objectives one against the other. The choices which underlie budgetary decisions are not made in terms of absolute priority but of shifts at the margin. And a slight marginal shift in some larger budgetary areas could provide quite substantial increases in aid resources. The problem for countries wishing to provide assistance is also, like that of the recipients, essentially political."

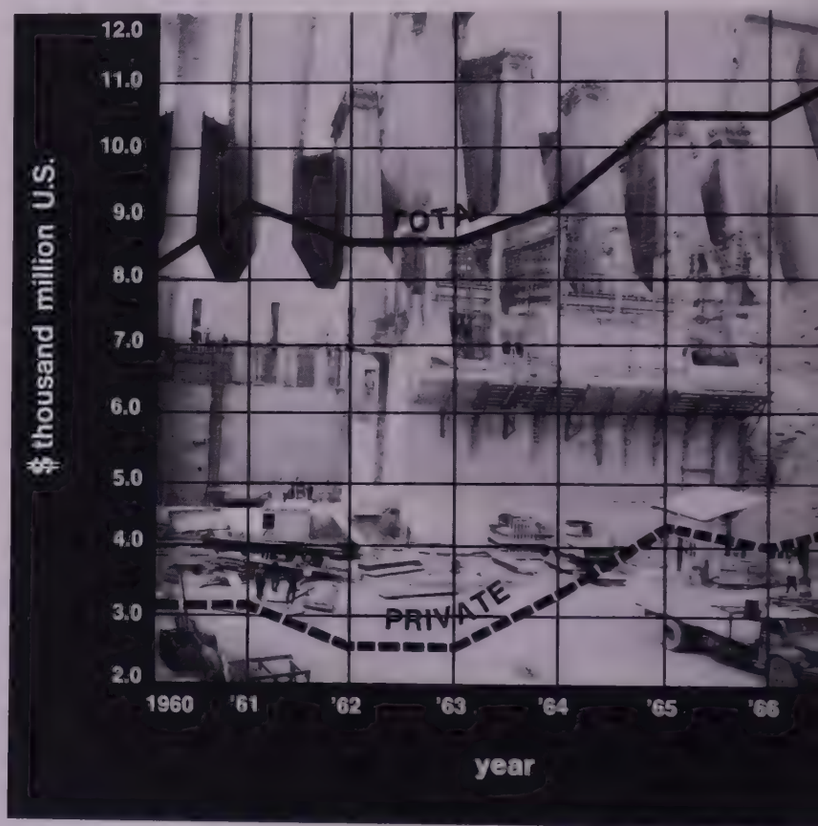
Opening the world's capital markets

It cannot be maintained that a 1% allocation from a GNP of some $1,650 thousand million in 1967 would be a heavy burden on a developed and wealthy world which is getting richer every year — yet it would nearly double the capital flow of the year 1966. This is really far from crying for the moon.

Even balance of payments difficulties could be met by some such device as suggested by the president of the World Bank with regard to the International Development Association (IDA) replenishment. This system would provide for a coordination of the use of the equivalent of sale of bonds in the various countries, with purchases in their markets if balance of payments difficulties were to entail that procedure. This would escape the pitfalls and shortcomings of

Flow of developm

Private investments and total* flow in thousands of millions of dollars...



** Total financial resources include gross official aid disbursements, private investment and commercial flows from DAC member countries bilaterally to the developing countries (less repayments on earlier lendings); and multilaterally through the UN agencies. It does not include grants made by private nonprofit groups, such as foundations, voluntary agencies or churches (estimated at $650 million in 1967), income from private investment or investments by the developing countries*

tied aid as it would apply to timing only, and would prevent the repercussions of tied aid on prices and terms.

In the light of the present experience of budgetary allocations, it seems well-nigh impossible to substantially augment aid by the simple method of state grants. Even the World Bank and similar institutions could not obtain a thousand million dollars or more a year in such budgetary allocations as a priority within the political framework of democracy. The activity of such institutions becomes possible only through access to the capital markets of the world for the benefit of the development of the third world.

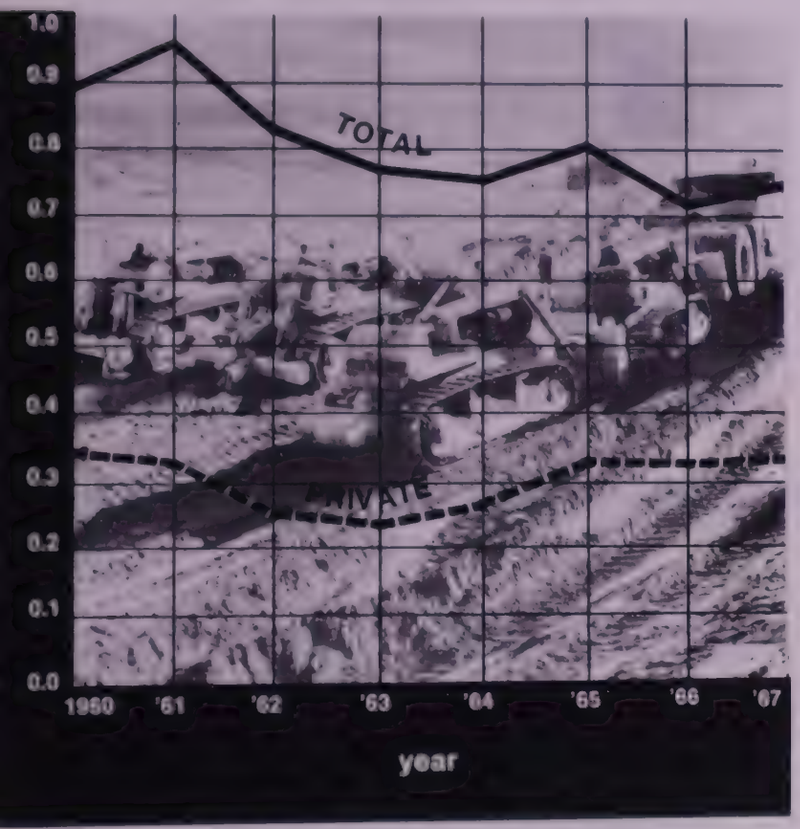
The developing nations themselves are barred from access to the capital markets by lack of security and by high interest rates which they are unable to pay: the second impediment has become even more pronounced in the last few years, with the rise in interest rates.

The arguments against allowing developing nations access o the capital markets of the world include the scarceness nd high cost of money. But this is a double-edged sword nd cuts both ways: these conditions make it more imperative han ever to provide special facilities for the developing ations, otherwise they have not the slightest prospect of aising funds on those markets.

This is first and foremost a question of priorities. It s impossible to believe that every one of the $42 thousand illion of internal and external issues presently floated on

nce to the third world

. . .and as percentage of the developed countries gross national products**



DAC member countries. Source - OECD's Development Assistance Committee DAC). Member countries are Australia, Austria, Belgium, Canada, Denmark, rance, Fed. Rep. of Germany, Italy, Japan, Netherlands, Norway, Portugal, weden, Switzerland, United Kingdom and United States.
at market prices.

e capital markets of the world has, from a global point f view, absolute priority over the needs of the undeveloped arts of the world.

Analysis of the capital markets provides incontrovertible vidence that they should be capable, on the basis of priority, f allocating some share of the amounts raised by fixed-terest bonds to stimulate the growth of developing nations.

Again, from the report of the UNCTAD secretariat: The foregoing account makes it clear that during the 960s there has been significant growth in the capital markets f developed countries. It is, of course, true that many of ese markets have been faced in recent years with tight nditions. But this is because the demand for long-term nds has increased even faster than the supply. However, e tightness of markets has not always been due to the ortage of savings." And, as an EEC report pointed out: "The present shortcomings of the capital markets are due not so much to insufficient savings as to the impossibility of adjusting correctly supply and demand on markets that are too narrow."

This is fine, of course, provided that the flow of capital to developing nations is not residual after all other needs, more or less urgent, are satisfied.

Illusions, paradoxes and prejudices

It is decidedly preferable to enable the developing nations to buy money on the market, on conditions compatible with their capacity to repay, than to rely entirely on taxation for the required capital. It is an illusion to suppose that taxation sufficient to provide assistance to other nations is a realistic concept in a democracy. Experience of the extent of capital flow to developing nations, particularly the problem of replenishing IDA, attests to the truth of this.

Money is always available if the proper collateral and interest are forthcoming. The most specious of the arguments advanced against the implementation of the plan for mobilization of capital on the capital market for the development of the third world — by an interest equalization fund and guarantee of the developed nation guarantee of the developed nation, as I proposed to UNCTAD* — is that of the tight money market. But the money market will always be tight so long as the curve of economic activity is rising; its tightness can only be relaxed under conditions of recession.

A stagnant economy, with a reduced demand for capital, would readjust the supply and demand of funds on the capital markets on a lower level. Is this really desirable? The palpable correlation of accelerated growth and tightness of capital markets, caused by added demand for capital, results in a paradoxical situation in which we are told that the greater the prosperity and the increment of the GNP of the developed world, the more restricted the possibilities for augmenting the capital flow to developing nations, because prosperity, full employment and rapid economic growth are correlated with tight money markets. It is difficult to grasp that kind of reasoning. The answer, naturally, is to be found in the allocation of priorities.

The report of the UNCTAD secretariat shows that capital markets expand, particularly in Europe, even for international issues. But all this extra capital is diverted to developed economies, which are already overheated and where more investment results in inflationary pressures.

The establishment of the World Bank and of the International Monetary Fund at Bretton Woods was a revolutionary departure. It initiated measures for the access of developing nations to capital markets. What is needed now is a new departure, one step further in the transferring of resources from the developed and industrialized world to the developing nations, particularly in view of recent developments of the world's monetary system and the creation of new reserves.

It is frequently maintained that there should be no connection between the creation of reserves and the provision

* *The Horowitz Plan for the financing of development of under developed nations was recommended by UNCTAD in 1964*

(Continued on Page 58)

Victor H. Umbricht, *Managing Director, CIBA, Switzerland.*

The main obstacle is risk

says Victor H. Umbricht

dialogue

while Carlos Massad affirms,

The real risk is the short-term view

Carlos Massad, *Governor of the Bank of Chile.*

ceres WHAT IS, IN YOUR OPINION, HE MAIN ROLE OF PRIVATE INDUSTRY IN HE DEVELOPMENT OF THE THIRD WORLD?

UMBRICHT To begin, I would like to ake two general observations. Firstly, at countries which don't recognize ivate, intellectual and industrial proper- do not meet the conditions necessary r receiving private investment.

Secondly, when private industry invests a country — underdeveloped or not — does so to make a profit. At the end of e day, when the accounts are drawn p, there must be a gain. Otherwise the dustry is bound to fail, or at least to ave the country.

So it is extremely important that the eveloping countries recognize the con- ept of profit; a reasonable profit, of ourse, the rate of which can be discuss- d. They must also accept the transfer f that profit.

ceres BY TRANSFER DO YOU MEAN HE RETURN OF THE PROFIT TO THE NVESTOR COUNTRY?

UMBRICHT That's right. This doesn't mean the profit is to be transferred automatically and at all times. It certainly won't be in the beginning for the sound reason that at this stage there won't be any. Even afterwards, we may want to reinvest most of the earnings locally. Still, if the industrialist wishes to transfer his earnings for whatever reason, he must have the opportunity to do so.

The same applies to the invested capital, which we must be able to recover if necessary. The developing countries should give certain guarantees to that effect. I don't want to exaggerate the role of profit. But normally it should be estimated so as to cover the risks involved. And undeniably the risks are higher in the third world countries.

Once that's established, I think that private industry can play an enormous role in the development of the poorer countries. First of all, capital is needed to launch an enterprise, and not only to launch it but to support it in its first stages. It is also necessary to provide the know-how, the technical skill, which is certainly the basis of the wealth of a large industrial enterprise. After all, we can always find capital if we take the trouble to look for it; but technical know-how is the result of a hundred years of research!

That's the real capital, the real wealth of business firms, and that's why they demand protection for their intellectual property, that's why they want licences and patents. It seems to me that bringing this technical experience to the developing countries is of the greatest importance, since without it they won't be able to enter the mainstream of modern economic growth.

Like ourselves, they need the knowledge acquired in the last hundred years, but provided they recognize intellectual property and allow for fair royalties and fees.

There are countries that do this, plenty of them. Then there are those that don't, and even go so far as to copy everything you do. What interest do you have in going to work in a country which, without paying anything at all, copies the results of your research? You've put a

ceres WHAT ARE THE ADVANTAGES ND THE DRAWBACKS OF PRIVATE FOREIGN NVESTMENT, FOR THE DEVELOPING COUN- RIES IN GENERAL, AND CHILE IN PARTIC- LAR?

MASSAD The first advantage is in ob- ining additional resources from foreign ountries. This is not necessarily a long- un advantage: because sometimes the ow of profits and amortization may out- eigh the inflow of new capital. It is very fficult to assess this burden because pri- ate foreign investment can help to sub- itute imports and the effects of this ubstitution cannot be directly assessed; r, it may further exports. This is some- ing which really merits deeper study efore a definite conclusion is made.

Anyway, if we take a look at many eveloping countries and compare, say, rofit remittances with capital inflow, we nd that for a long period of time the sults have been negative.

As for Chile, the net results are posi- ve. There have been important foreign vestments, especially in the copper production area, and in this case the government is a partner in the investment. In one particular company it is the majority partner, in other companies it is a minority one but in all instances the government has its say in the most important decisions. Copper is such a crucial sector of Chile's economy that the government must be in it. The second advantage is the introduction of new technology into the country's economy through know-how both in terms of entrepreneurial organization and of technology proper.

In some instances there is the advantage of getting what one might call 'captive markets': for example, a subsidiary of a larger firm, established in a developing country, may produce pieces and parts which it exports directly to the main country for assembly of the final product. But there is another side to this advantage.

This sometimes works in the opposite way, when the products are sold by the parent company to a subsidiary at prices higher than would be obtained in the free market. So there are two sides to this question of captive markets, and one has to be quite careful when analysing a given project, to see which way it will work.

These are, I suppose, the main advantages of private foreign investment. Now let's look at the drawbacks: first, you find that sometimes there are difficulties with the local entrepreneurs who are reluctant to accept the establishment of an important foreign firm which may deprive them of an opportunity of investment open to domestic capital and domestic entrepreneurship. This may become in some cases a problem. Perhaps the best solution would be to make a thorough project evaluation and see whether domestic entrepreneurs are able to carry a good project forward and, on the other hand, to think in terms of joint ventures, that is, to put together foreign and domestic capital, either private or public, to undertake a particular project.

There are other problems, linked with difficulties arising when the policy of a given subsidiary in a developing country is in some measure determined by the

lot of money, personnel, and scientists, into that research, you've worked on it for years. For what?

And now we come to another kind of contribution: management know-how. You don't hire amateurs to set up a factory: it takes experience and knowing how to run a business.

The developing countries don't have such a thorough knowledge of management yet. Some of them have it to some extent but, in general, the developed countries have something to contribute and should do it. Next, there is the training of personnel from the technical, commercial, economic and financial standpoint, the training of managerial staff.

ceres DO YOU THINK A FOREIGN BUSINESS ENTERPRISE CAN REALLY BECOME INTEGRATED IN THE SOCIAL AND ECONOMIC FABRIC OF A COUNTRY OF THE THIRD WORLD, AND TO WHAT EXTENT?

UMBRICHT Certainly, such an enterprise can very well become integrated, at least partly. This can be done in two ways. First, at the social level, by cooperating with the local communities. From this standpoint, a lot can be done for the schools, hospitals, churches and existing groups. Sports clubs, stadia and libraries can be established.

Also — and this would be still better — we can extend this integration to the structure of capital itself by letting the local people participate in its formation.

This doesn't necessarily mean a majority participation — that raises another problem which I won't discuss here — but anyway a participation involving the addition of local representatives to boards of directors.

It would also be advisable to give responsible posts to managerial staff from the countries concerned, since it's not right that all the good jobs be held by foreigners, and only second and third class ones available to the others. But obviously, to reach that point, training courses must be planned. We can't afford to give a job to someone unless he qualifies.

But once we've found the man with the qualifications, or trained him, we should give him the same responsibilities we give foreigners.

Just in passing, I might say that the developing countries should be more generous in issuing residence permits to foreigners. When you establish a plant, it takes technicians who know how to organize production, who have a scientific background, and know the finer, critical points of an industrial operation.

To guarantee the success of an enterprise, a company must be allowed to bring in its own people, at least for the first few years, to get it off the ground. Unfortunately, when we apply for a permit we run into enormous problems and bureaucratic delays.

This is regrettable but even more, it's not in the best interest of the developing countries to act this way.

That's my idea of the place private industry could have in the countries of the third world. Does that answer your question?

dialogue

policy of the country of the investor. This is in a sense a problem of nationalities, and there is growing interest today for setting up multinational institutions for private investment, of the ADELA* type, where the nationality element is not the main consideration.

Then there are problems connected with what is called the 'climate of confidence,' or 'the security of the investment.' We find that in many countries, and in Chile in any case, this question is grossly exaggerated in business discussions; for when you talk to investors and they say that they are not interested, in fact they are interested, and in a hurry too...

So there is a difference between words and deeds in this matter, and disentangling the difference may be of great help in improving the 'climate' of foreign investment.

ceres INVESTORS SPEAK OF MANY RISKS — POLITICAL RISKS, MEANING THE POSSIBILITY OR NOT TO TRANSFER THEIR PROFITS AND CAPITAL — AND EVEN TECHNOLOGICAL RISKS. IS THIS PART OF THE 'CLIMATE OF CONFIDENCE,' OR IS THERE A TENDENCY TO EXAGGERATE THE SITUATION?

MASSAD My impression is that it is quite exaggerated. Indeed, you find foreign private investment going on in countries with very different political structures and different social goals or economic goals.

Furthermore, many countries are setting up insurance systems enabling investors to buy coverage against noncommercial risks, and this is quite a positive factor.

When budgeting his own project and its rate of profits or returns, the investor will include in his outlay the cost of this insurance which, as far as I know, is not prohibitive. As a matter of fact, the insurance systems operating today are making a good profit, and that is another indication that here is a smaller risk in foreign investment than is commonly thought.

ceres WHAT IS A REASONABLE PROFIT? COULD YOU DEFINE IT?

MASSAD I don't think anyone can. If a firm, after studying a project with the institutions which most developing countries have for that purpose, decides to go ahead with it, then I suppose the profit is reasonable. The question is not simply what constitutes a reasonable profit from the investor's viewpoint, but also what might be a reasonable participation of the domestic economy in a given project. And this point cannot be answered only in terms of rates of profits. There are many other elements involved — external economics, to mention one, which deserve important consideration.

ceres TO WHICH SECTORS DO YOU THINK PRIVATE FOREIGN INVESTMENT

** The ADELA Investment Company S.A. groups banks and industrial corporations from 16 developed countries with the object of intensifying investments in the priority sectors of Latin American countries.*

.technical know-how is the result of a hundred years of research !

ceres IT CERTAINLY DOES. I'M GOING TO ASK YOU ANOTHER, TO TRY TO STIMULATE A DIALOGUE BETWEEN YOU AND THE COUNTRIES WHERE YOU BECOME ESTABLISHED. THEY SAY: "YOU'RE REALISTS, YOU SEE THINGS FROM THE ECONOMIC ANGLE, YOU MAKE PROFITS. THAT'S FINE. BUT AT THE SAME TIME, DO YOU TAKE SUFFICIENTLY INTO ACCOUNT OUR DEVELOPMENT NEEDS?" MAYBE THIS CAN BE THE STARTING POINT FOR AN EXCHANGE OF IDEAS.

UMBRICHT : We don't invest only to make profits, but profit is indispensable. Investments are made because there is a market for them, for a series of reasons. Once this decision is made, of course, we must fit in with the planning of the host government. All countries are drawing up fairly long-term development plans, and some define what are known as sensitive areas, that is, sectors of the economy where they don't want foreign investments, or at least not a majority participation by foreigners.

HOULD BETTER BE DIRECTED? FOR HIS IS A PROBLEM EVEN BIGGER THAN VESTMENT ITSELF.

MASSAD I really think this is a question at each country must solve by itself. is a question of deciding on a devel- ing strategy and defining priorities m the country's point of view.

For agriculture, my thinking is that for- n investment could make a better con- bution in the processing and marketing as, rather than directly in the produc- n area. Now, marketing and process- ; implies improving production, implies roducing new production techniques, ablishing more buying points, better nsportation systems and the like. So haps by working at this level techno- ical development in agriculture can ch up to production.

And I think that in the case of agri- ture this is probably the most prom- g aspect of foreign investment.

ceres : YOU SPOKE ABOUT ADELA, AND THAT IT'S A NEW VENTURE, A JOINT ONE. COULD YOU TELL US ABOUT ADELA'S IMPACT ON CHILE?

MASSAD : ADELA has helped in many fields: in metallurgical industry, in food processing and many others. They usually are minority partners and they also provide technical assistance. There are some clauses incorporated in the agreements, to help improve management whenever it is needed. This is, I think, a positive approach to a programme of investment.

ceres : THE EFFECTIVENESS OF PUBLIC AID HAS COME UNDER HEAVY CRITICISM, AND SUGGESTIONS WERE MADE FOR SUBSTITUTING THIS AID WITH PRIVATE INVESTMENT. HOW DO YOU FEEI ABOUT IT?

MASSAD They are not substitutes. Definitely not! They may be complementary, but not at all substitutes. And let us recall that developing countries need to do only too many things that private investment cannot do — infrastructure, education and social and economic reforms which require resources. And they usually produce pressures on the balance of payments. These are problems which private foreign investment cannot solve. It might help a bit, but it does not solve them.

So, when a country is hard pressed for resources, it should not think in terms of private foreign investment exclusively. The world should give us opportunities for thinking also in terms of assistance for development.

This is not just a question of moral principles. World peace is involved, and the United Nations and other international bodies have recognized it. But the conditions of development and public aid should be liberalized and, to that aim, we need that the developed countries should solve their own balance of payments problems as soon as possible, and with as much cooperation among themselves as possible. But, definitely, private

In Mexico, for instance, the petrochemical industry is supposed to be a purely national industry. In some other countries, industries connected with petrochemicals must be financed by local majority participation.

In still others, some sectors are completely off bounds for foreign investors: for instance, maritime transport sometimes and, usually, everything connected with national defence.

Knowing this, foreign investors can only choose the activities which interest them in the remaining sectors.

Personally, I have never noticed any major conflict between local interests and those of the investors.

In any case, we have always found a basis of agreement in the private sector, and I would say this problem doesn't worry me much.

ceres NOW, WHAT ABOUT RISK? A LOT HAS BEEN SAID ABOUT THIS, AND I CERTAINLY AGREE WITH YOU WHEN YOU SAY THERE IS A RISK INVOLVED IN INVESTING ABROAD. BUT DON'T YOU THINK THIS ASPECT OF THE PROBLEM HAS BEEN SOMEWHAT EXAGGERATED?

UMBRICHT Let's try to identify the risks. First of all, there's political instability. In the last ten years there have been no less than 62 coups d'etat in the developing countries. That's enormous! It creates an atmosphere of unrest, of political chaos, with all the expropriations and nationalizations that go with it.

You think you're working in a particular framework whose laws you've accepted, but you never know whether next week a new government won't upset everything. You see, what's worse than expropriation is the fear of it.

Then there's the uncertainty concerning the protection of intellectual property. Will they let us keep our patents, our products, everything we've acquired by years of work, or will they consider it all "a scrap of paper?" In many countries attacks are being made on patents in the pharmaceutical sector. These countries say: products must be sold as cheaply as possible to our people so that they can benefit by the latest scientific findings.

I agree entirely with this generous point of view, but not when, to achieve this result, they abolish protection of intellectual property. How can we engage in research, which is very costly, if we cannot make a profit on our investments?

There is a further and by no means lesser risk, when an investment cannot include the entire production process from A to Z but, let's say, only the second half. We must necessarily bring in the basic commodities if we are to process them locally.

All of a sudden a rule is imposed forbidding the import of these basic commodities, and we have to make new investments, and establish new factories to manufacture them locally. It's not only a financial investment you're making, you're also importing technology into the developing countries. Producing chemical for the pharmaceutical industry is probably the most difficult kind of production there is.

foreign investment is not a substitute for aid, cannot be a substitute.

ceres FIFTY OR TWENTY YEARS AGO THERE WAS CAPITAL FLOWING FROM RICH TO POOR COUNTRIES. HAS ITS NATURE CHANGED SINCE, AND IN WHAT WAY?

MASSAD There have been several changes. To begin with, there are different types of capital inflow. In the case of private foreign investment there is one important change: private investment is not looking as much as before toward the extractive industries and is coming more and more into the manufacturing field. This is an interesting and positive change.

As for public aid, the terms of aid are being made more and more difficult to comply with. Tied loans are now a generalized practice, which may move us into a world of bilateral trade rather than into a world of more open international trade. The cost of capital is rising, interest rates are going up, and are going up rather fast, which also implies difficulties for developing countries. Some very imaginative and practical proposals have been put forward by Mr. Horowitz * in this context and they should be explored more seriously and systematically.

I suppose these are the main changes one could mention. There are also some other elements which make for differences in the flow of capital and also for differences in investment opportunities: trade is supposed to be — or some people think it should be — a substitute for aid... again these things are considered substitutes.

Aid could not be used profitably without trade. Trade implies more investment opportunities in the developing countries and as long as difficulties in trade are created — such as tariff barriers, etc., in developed countries — this means narrowing the margin of profitable investment opportunities, not only for foreign investment but also for domestic investment; and that also means affecting the rate of growth of the developing countries.

There is already a differential in the rate of growth of developed and developing countries and this difference runs against the developing world, and, as it widens, then, to put it very broadly, peace will be a very difficult goal to achieve in the future.

ceres INVESTORS COMPLAIN ABOUT LEGAL AND BUREAUCRATIC DIFFICULTIES — THEY SAY THEY DON'T GET ENOUGH ADMINISTRATIVE COOPERATION ABOUT ISSUANCE OF PERMITS AND PEOPLE MOVEMENTS. ABOVE ALL, THEY WORRY ABOUT PATENTS, ABOUT WHAT THEY CALL 'INTELLECTUAL INVESTMENT'. THEY ARE AFRAID THAT THEIR PRODUCTS MIGHT BE COPIED. WHAT DO YOU THINK?

MASSAD There are too many things involved in this question. Intellectu

* See article, page 20.

t requires absolute precision, to the milli-
ramme or hundredth milligramme, since
eople's lives are at stake.

Can this be done locally? Are the
eople there aware of the quality or hy-
ienic standards needed for this kind of
ork'?

Finally, there is the risk of taxation.
uddenly, these countries find they need
ioney. What do they do? They raise
axes to the point where your business
oses all incentive. Very often, unfortu-
ately, foreign companies can't defend
iemselves as well as local businesses.
)bviously, it is easier to investigate
oreign firms than local ones.

Roughly speaking, these are the risks
un by foreign investors in the third
orld. I don't mean to exaggerate them;
ctually, we are investing enormous
mounts. But I do want to point out
iat along with the positive experiences
e've had some others, negative ones
s well.

ceres WOULD THAT BE THE REASON WHY FOREIGN INVESTMENTS, WHICH USED TO COME TO ABOUT THREE THOUSAND MILLION DOLLARS A YEAR, ARE BEGINNING TO FALL OFF?

UMBRICHT That's right. It's unfortunate that in this world where the population in the developing countries is growing at the rate we all know, public and private investments are decreasing. Or rather, private investments are increasing, but not in the poorer countries.

They are increasing in certain selected countries, but dropping in others which, unfortunately, are the ones which need them most. This is deplorable, but it's because of the political and economic instability I mentioned before.

For example, you know some countries have nationalized everything. Who wants to invest there now? Nobody. Some other governments show a tendency toward communism.

Every country has a right to be as government-controlled, as centralized, as socialist as it wishes, and I'm the last to deny them that right. I'm simply pointing out that this doesn't create the best conditions for the industries which want to invest.

That's why, much to our regret, investments have gone down in the countries which need them most.

ceres ANOTHER EXTREMELY IMPORTANT PROBLEM IS THE LACK OF INFRASTRUCTURE. SAY YOU WANT TO ESTABLISH A FACTORY SOMEWHERE, YOU HAVE THE POSSIBILITY OF BUILDING IT AND BRINGING IN NEW TECHNOLOGY, BUT YOU ARE PARALYZED BY THE ABSENCE OF ROADS, ELECTRICITY, WATER SUPPLY, ETC. ALL THIS DOESN'T DEPEND ON PRIVATE INDUSTRY BUT ON THE GOVERNMENT.

DON'T YOU SEE THIS AS AN AREA OF COMMON INTEREST TO BOTH THE PRIVATE INVESTOR AND THE RECIPIENT COUNTRY?

.we can't wait one or two hundred years, e don't have that much time ahead of us...

knowledge is usually the product of the investment of resources and in that sense trying to get a yield out of this investment seems to be legitimate. But, on the other hand, we have found in several cases that negotiating royalties for patents is a problem — the cost sometimes is too high. And we have had some experiences in our own committee which studies these problems: take the case of one domestic entrepreneur who was willing to pay royalties too high by international standards; after the problem was evaluated by our committee, and more information was put at his disposal, he could negotiate a much better deal.

There is quite a lack of information concerning real prices in the patent market, and this often prevents domestic entrepreneurs from striking a fair bargain. Oddly enough, they don't even know that technical alternatives can be used, therefore they are often in a difficult position to negotiate; and since this is a matter of negotiation, the more they know about the subject the better their chances to bring it off successfully.

Another point: the question of technical knowledge is quite a difficult one in terms of goals, for many developing countries. It may happen for instance that in order to use the best techniques available for a given product you must make a large investment, rather intensive in the use of capital and little intensive in the use of labour.

Usually, for a particular product, there is a small range of selection of alternative techniques. I suppose quite a lot of research is needed to find whether alternative techniques exist for the efficient production of a given item with a different resource-mix, techniques more adapted to the resource-mix available in developing countries.

But this is not the whole question because it concerns only one particular product for which the range of selection of alternative techniques is narrow.

The hardest decision concerns the choice among different products — and you may select among products those whose techniques are the best available and are more intensive in labour than

UMBRICHT In my sector, chemistry, the state of infrastructure doesn't raise a serious obstacle to investment, since it's necessary to others as well, especially to agriculture or heavier industries than ours. So roads, railways and ports don't worry us so much.

Rather, what's lacking in our case is an established banking system, then specialists, skilled workers, and an administration capable of shortening the delays for granting licences.

Think of it, in some countries it takes eighteen months as a rule to obtain one, and sometimes two or three years!

ceres YOU BELONG TO THE BOARD DEALING WITH THE MEKONG DELTA AND THE DEVELOPMENT OF THAT REGION. THERE ARE SEVERAL PROJECTS OF THIS KIND IN THE WORLD, AND THEY ARE INTERNATIONAL IN TWO WAYS: BECAUSE RICH AND POORER COUNTRIES COOPERATE IN THEM; AND ALSO BECAUSE MANY COUNTRIES OF THE THIRD WORLD ARE ASSOCIATED IN THEM THROUGH COMMON MARKETS OR, AT LEAST, COMMON PROGRAMMES. COULD YOU GIVE US YOUR VIEWS ON THE FUNCTIONING OF SUCH OPERATIONS?

UMBRICHT Yes, I am a member of the Mekong Advisory Board. Our task is to assist four countries bordering the Mekong river — Cambodia, Laos, Thailand and Viet-Nam — which might be joined by others later.

But these four are too poor to go it alone and a regional approach is indispensable for their economic future. The Mekong river traces their borders, but also links them and from the Mekong they get their electric power, their transport and communications, their trade — everything.

If you build a bridge on the Mekong, it becomes an international project right away, and if you build a power plant it will be the same, servicing the four countries at once. You don't build roads across one country but run them throughout the region.

Only thus, we believe, can one utilize the great resources of the area by having a regional, international, multinational and not a national approach. This requires joint planning, so that each country knows what the others want and they can reach an agreement.

I am very much in favour of this regionalization and of a common market for south Asia such as those of Europe and Latin America and other parts of Asia.

And here the question of financing arises. The whole world bears a heavy responsibility toward the countries of southeast Asia which, unfortunately, have been so much in the news during the past years. We must help them to rise from the ruins and rebuild what wars have destroyed. And countries outside southeast Asia must realize that without this help progress will be very slow.

Maybe not priority over other countries but at least restore the balance considering that they have suffered more than others, and have not received their fair share of international aid.

in capital. Very positive inducements to investment are offered in this field, such as accelerated amortization. But this works in favour of projects which are highly capital-intensive, because what is amortized fast is capital... So here we have a very good inducement to investment which, however, has as a side effect the selection of products which are highly intensive in capital and less intensive in labour, in the techniques available for their production. The result is the opposite of what you wanted to obtain.

These are pressing questions, and they will become even more pressing in the near future. They don't affect developed countries, because new techniques require new capital goods, and there is a demand for capital goods in the same developed countries where they are produced. While in the case of developing countries you may produce a limited amount of capital goods, and in general you have to import them; so the situation is completely different.

ceres LET'S SPEAK FRANKLY, THERE IS A POLITICAL RISK ESPECIALLY ABOUT COUNTRIES WITH A SOCIAL-MINDED GOVERNMENT. DO YOU THINK THAT PRIVATE FOREIGN CAPITAL CAN COOPERATE WITH COUNTRIES WHICH PUT SOCIAL PREOCCUPATIONS ABOVE OTHERS?

MASSAD I think it certainly can. It certainly can contribute under these conditions. There would perhaps be a request for flexibility, in this context, to the private investor either foreign or domestic. Flexibility in terms that are not unknown to investors. These investors should always look — good investors do — to the long-run results of a given project.

Now, a country undertaking basic reforms in order to modernize its economy and introduce more justice in the functioning of the system is changing what I call the rules of the game — or at least some of the rules of the game.

But these very changes were made by developed countries one hundred or two hundred years ago, while we have to make them now, and cannot wait one or two hundred years for making them. We don't have the time that the presently developed countries had — we don't have it! So we have to make these changes at a much faster pace.

And if an investor with a long-range view realizes that these changes will bring forth a more just society, a more open society with opportunities available to everyone, a better distribution of income closer to that existing in developed countries, he will also see that these conditions are the ones which will give him more security in the long run.

And here you have to differentiate between the long and short run. Someone said that the long run is made of a series of short runs. This is certainly true, but what an investor looks at is not the present short run but the series of movements which will carry a given society economy toward a more socially stable and just situation and that would be his best security in the long run.

Were these things left undone then we would be running far greater risks than

ceres NOW I'D LIKE YOUR OPINION ON A HIGHLY DEBATABLE POINT. IT IS WIDELY THOUGHT THAT INDUSTRIALIZATION IS THE FASTEST WAY TO REACH A CERTAIN LIVING STANDARD. AT THE SAME TIME, WE FIND THAT A MINIMUM OF 70 TO 75% OF THE POPULATION IN THE THIRD WORLD LIVES ON AGRICULTURE. WE ALSO KNOW THAT IN THE PRESENT DEVELOPED COUNTRIES INDUSTRIALIZATION WAS NOT ACHIEVED BEFORE THE START OF REAL AGRICULTURAL PROGRESS. AS A REPRESENTATIVE OF INDUSTRY, WHAT ARE YOUR VIEWS ON THE MATTER?

UMBRICHT It's a question of priorities. Since we can't do everything at once, we have to choose. Personally I would give agriculture top priority at present because it's already there and people know what it is, while industry still has to be created. It is more logical and efficient to first try and improve what exists and — more or less — works.

At the same time, something should be done for industry. And for learning too (by this I mean the elementary, secondary and technical schools to start with, and then the university faculties and institutes of higher education) since they represent the future of every country. On the other hand, I would give national defence a rather low priority: if only half the amounts spent on it were used for development, things would certainly advance much faster!

ceres ONE MORE QUESTION. ARE YOU, PERSONALLY, OPTIMISTIC OR PESSIMISTIC ABOUT DEVELOPMENT.

UMBRICHT I'm optimistic in the sense that I believe the rich countries are becoming increasingly aware of their responsibilities, and that the industrialists of these countries understand better than in the past that to invest in the third world is in their own interest. There has been undeniable progress in the development of the mental outlook, and in this respect I'm optimistic. Unfortunately, I think government aid is still far from increasing in proportion to needs. As you know, the developing countries require 1% of the GDP. This would mean 15 thousand million dollars for 1968 alone. That's a lot. This figure and percentage have never been reached in the past and won't be in the immediate future. Yet it is increasingly necessary to invest large amounts in the third world, and I don't think progress is being made in this direction as quickly as it should be.

That's why it's urgent that both parties, the developed and the developing countries, should thoroughly understand their responsibilities and the measures to be adopted to remedy this situation. There exists a whole list of recommendations designed for the use of these two categories of countries. Each group should read it and draw on it for future action.

Everybody wants to invest, but in spite of this willingness, we aren't making progress as we hoped. What are the obstacles? I think I've described them fairly clearly at the beginning of this interview. They also point to my conclusions. ■

those many governments have to face at this time to undertake such changes. A far-sighted investor should take these things into consideration, and I found in practice that many of them do.

ceres TAKING INTO ACCOUNT THIS TIME FACTOR AND THE CURRENT ATTITUDE OF THE THIRD WORLD TOWARD PRIVATE ENTERPRISE, ARE YOU OPTIMISTIC OR PESSIMISTIC ABOUT THE FUTURE TREND OF PRIVATE FOREIGN INVESTMENT?

MASSAD It is hard to be either optimistic or pessimistic. One must be realistic. Let's put it this way: private investors and private enterprise have a lot to contribute to society, have done a lot in the past and have a lot to do in the future.

The question now is whether the private investor feels as his own personal obligation to do his utmost to maintain the status quo; assuming that maintaining the status quo means, in good faith, maintaining the rules of the game, maintaining stability and maintaining really possible development for the future.

They might be wrong, sometimes, in these terms. I mean, if they recognize the type of changes which a society must adopt to create more opportunities for the entire population as changes which should be accepted and supported by them rather than fought, then certainly one could be optimistic.

But if the private investor thinks — and I believe this would be a mistake — that these changes affect so much the rules of the game that he cannot continue investing, then he himself is creating the conditions that will perhaps force societies to move in a different direction.

Investment is needed. If it is not forthcoming through one type of system, it will have to come through another one; and if it is not, then everyone will start thinking about how to change the whole structure, the whole set-up, in order to obtain investment needed for growth.

Growth, and improvement of the standard of living of the people are such a pressing objective that it may go further than many people think.

If these objectives are not met soon enough, conditions in the developing world will change, I am afraid, in a direction which will not receive the support of private investors.

But we have here a question of alternatives, and one has to do one's best to make some of the alternatives work. But if they don't, despite these efforts, then society will choose a different alternative.

This is really what I mean when I say that if you don't have development you won't have peace. If you really can't move forward at a faster pace than most of the developed world is moving at the present time, then the pressure of expectations, legitimate expectations, will be too strong to permit a stable social system to work smoothly, and this is the basis for the disappearance of peace. ■

New investment codes in Africa

- to protect the investor's capital and the countries' resources - and coordinate financing with development plans

by KRISHNA AHOOJA-PATEL

Africa's agricultural resources, although barely tapped at present, are immense. The continent is ideally suited to growing all types of crops, for food as well as for industries. The oceans around it, its lakes and rivers, provide unlimited opportunities for fishing. Its rich forest resources amount to one sixth of the world's total.

And yet, the African countries produce on a per capita basis no more than one third of the per capita agricultural output in the industrially developed countries. The vast potential of raising agricultural output is thus plainly evident.

This realization has found a clear expression in the development plans of most African countries. Even where rapid industrialization, including the creation of basic industries in the public sector, formed the backbone of the development strategy, there has been present nearly everywhere the emphasis on agricultural expansion.

This emphasis is also to be found in the investment codes and laws, which have served as the legal complements to the development strategy of the development plans of the African countries. But since the legal enactments more often than not give a generic expression to policy instruments for raising the level of investments in a country, it is easy to appreciate why the specific provisions concerning agriculture alone, as distinct from those concerning any other economic activity (e.g. industry, transport, etc.), are much less clearly spelled out in the investment codes or laws than in the development plans. It is important therefore to examine agricultural development legislation in the broad context of the main provisions of these investment codes and laws.

In the early sixties, only seventeen countries out of thirty-three independent States in Africa had enacted such laws. Since then, the number has steadily increased with the result that now a country without a development plan and without a complementary investment code has become a near-rarity.

The Investment Code of Dahomey was specifically adopted for the purpose of "coordinating private investments with the development plan." In Kenya, the Foreign Investments Protection Act clearly states that a certificate for an "approved project" may be withheld by the Minister of Finance, if it is not for the "benefit" of the country. Morocco has stated in its Investment Code that private capital is welcome in economic sectors to which the development plan has given "priority."

The use of the words "approved project" or "priority" conveys somewhat different emphasis in the investment legislation in the African countries. The former signifies that the Investment Commission or a government agency has already drawn up a list of concrete projects in the light of the criteria laid down in the development plan of the country. The word "priority" on the other hand is used to convey a wider coverage, referring to broad areas or enterprises.

The main object of investment laws is to facilitate or attract foreign, domestic or both types of investments. The investment laws or codes normally describe the executive authority responsible for examining and supervising investments. They usually incorporate conditions for entry of foreign capital and the rules for remittance. Regulations invariably include tax exemptions which are relat

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o the size of investment over a specific eriod. Items and goods that can be mported duty free for new enterprises nd their expansion are also listed.

The existing investment laws, particularly of ex-English-speaking colonies, re not comprehensive; they do not always contain essential information for he potential investor. In some cases t is necessary for the potential investor o refer to exchange or custom regulations to get a complete picture of the egal structure essential for his venture. The ex-French-speaking colonies, on the other hand, follow a more or less uniform attern in enumerating special incentives or investments in agriculture. The typical examples are the investment codes f Chad, Gabon, Central African Republic, Ivory Coast, Rwanda, etc.

The economic policies of African governments fall into three groups, according to the emphasis placed on a particular form of organization for their accelerated economic and social development. At one extreme are the countries depending on the public sector as the main instrument of rapid agricultural development; at the other are those who expect to rely exclusively on private domestic and foreign investment. Between these two are a large number f countries where the attitude is more or less pragmatic: relying on private investment where feasible, and undertaking the project in the public sector where necessary.

A majority of the investment laws offer a vast range of economic inducements, including tax incentives and customs exonerations, to encourage new " and expansion of " established " nterprises in industry and agriculture. Apart from a few exceptions like Uganda, Kenya, Somalia and Libya, investment laws of most African countries sually apply to both foreign and domestic investments.

Economic benefits to the investor ange from complete tax exemption to artial tax concessions related to a specific period. There are also provisions or generous depreciation allowances ncluding reductions in turnover tax, tandard tax and business tax. In general, all tax benefits are granted after an nterprise has acquired a certificate of xemption or approval from a recognized overnment agency.

SELECTED INVESTMENT LAWS

Algeria - Ordinance No 66-284 15 November 1966 Preamble to the Investment Code, Law No. 63-277, 26 July 1963, establishing a Code of Investment.

Burundi - Law Instituting the Code of Investment, 6 August 1963.

Central African Republic - Law No. 62-355, 14 December 1962, establishing a Code of Investment, amended 19 February 1963.

Chad - Decree No. 156/PR, 26 August 1963, establishing a Code of Investment.

Congo (Brazzaville) - Law No. 39-61, 20 June 1961, providing an Investment Code supplementing the general tax code and amending the code on registration, stamps, and tax on income from securities.

Dahomey - Law No. 61-53, 31 December 1961, establishing the Code of Investment.

Ethiopia - Decree No. 51, 1963, providing for the Encouragement of Capital Investment in Ethiopia, 16 September 1963.

Gabon - Law No. 55-61, 4 December 1961, providing for an Investment Code. (This replaces a more general code which was drawn up by the four Equatorial States Central African Republic, Chad, Congo (Brazzaville) and Gabon. See also Treaty establishing the Central African Economic and Customs Union (Gabon, Cameroon, Central African Republic, Chad and Congo (Brazzaville), 8 December 1964)

Ghana - Capital Investment Act, 1963.

Guinea - Decree No 136/PRG, promulgated Law No. 50 AN/62, 5 April 1962, instituting an Investment Code.

Ivory Coast - Law No. 59-134, 3 September 1959, determining rules regarding private investment in the Republic and Decree No. 60-09, 6 January 1960.

Kenya - Foreign Investments Protection Act, 11 December 1964.

Liberia - Investment Incentive Code, 15 April 1966.

Libya - Law of 30 January 1958, on the Investment of Foreign Capital.

Madagascar - Ordinance No. 62-024, 19 September 1962. Law No. 62-025, harmonizing fiscal provisions with the Investment Code constitution and organic law, 15 October 1962.

Mali - Law No. 62-5/AN-RM, 15 January 1962, establishing a statute for enterprises operating under agreements.

Mauritania - Law No. 61-122, 26 June 1961, determining the regime of private investments.

Morocco - Investment Code. Dahir No. 1-60-383 (31 December 1960). Dahir of 9 Ramadan 1331.

Niger - Law No. 61-21, 12 July 1961, establishing an Investment Code of Niger, modified by Law No. 63-2, 1 February 1963.

Rwanda - Investment Code, 4 May 1964.

Senegal - Law No. 61-33, 22 March 1962, instituting an Investment Code.

Somalia - Foreign Investment Law No. 10, 13 February 1960.

Sudan - Act No. 8, 1956, Concessions for Approved Enterprises.

Tanzania - An Act to give protection to certain approved Foreign Investments, 20 September 1963.

Togo - Act No. 65-10, establishing the Investment Code, 21 July 1965 as amended by Act No. 65-26, 22 December 1965. Law No. 57-36, 11 September 1957 on the fiscal regime of the contractual enterprises.

Tunisia - Laws for the Encouragement of Investments: 19 September 1946, 18 September 1947, 30 March 1953, 27 June 1954 (Certificate of Agreement); 1 January 1958, 22 March 1956, 30 March 1957 (Guarantee of Equipment Loans) 29 December 1955 (Special Tax Reliefs) and 10 February 1958. Decree, 4 June 1957, on the Guarantee Fund for the Repatriation of capital and profits derived from foreign investments.

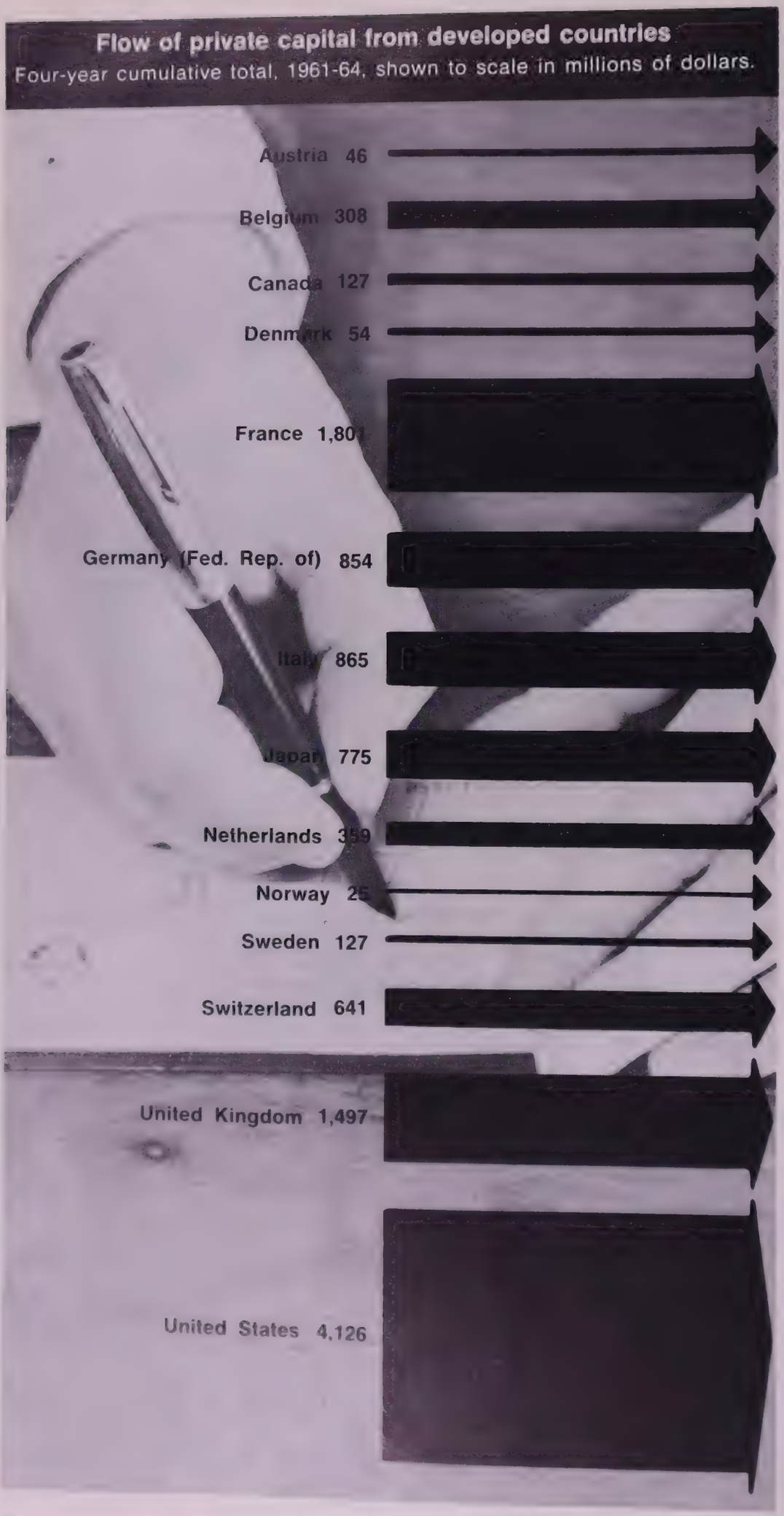
United Arab Republic - Law No. 156 on Investments of Foreign Capital in Economic Development projects, 1953. Amended, 1954.

Upper Volta - Act No. 14-62 issuing consolidated Fiscal Regulations for Approved Enterprises, 22 June 1962.

In the majority of countries influenced by the French and Belgian legal systems, the investment laws have established two regimes: of ordinary law and beneficiary enterprises. These regimes are sometimes further divided according to the industries or markets.

In the northern subregion, Egypt and Algeria rely heavily on the public sector, whereas such reliance is very small in Libya. In Egypt, laws and regulations affecting investment have been issued in the form of decrees beginning in 1953. A special committee examines and approves projects of economic development and no foreign capital may be invested without its authorization. Foreign capital, if invested in agriculture, may be transferred abroad up to 10% of the value of registered capital in the original currency.

The Algerian Investment Code defines " approved enterprises " (entreprises agréées) and " enterprises under a convention " (entreprises conventionnées) in its text without specifying industry or agriculture. They refer to enterprises which have a satisfactory plan, use modern or appropriate equipment and which by reason of their location or sector of activity contribute to the economic development of the country The law gives a number of guarantees and economic benefits, and their terms and conditions



are decided upon by the Minister of Finance.

In Libya, any project in which a minimum of 51% of capital is foreign is defined by the Foreign Capital Investment Law as "foreign capital." The only condition on which the Government reserves an industrial project for its own participation is that the private sector abstains from it. The investment legislation leaves it to the Minister of Finance to decide the conditions or the amount of capital or profits that can be remitted abroad. But if the output of projects of foreign capital competes with local industry or domestic agriculture, it is taxed at higher rates.

In eastern and central Africa, the differences between the French-speaking countries and the English ones are illustrated by the investment codes of Rwanda and Burundi on the one hand, and of Uganda and Kenya on the other. (The legal systems of France and Belgium are quite close, which explains the similarity of legal measures adopted by their former colonies and both groups use French as an official language.)

Both the Investment Codes of Rwanda (1963) and Burundi (1964) provide for general guarantees with regard to vested rights, personal and real estate, right of residence and the "legal practice" of agricultural, industrial or commercial activity.

In Rwanda, the code has provided for a favoured status or "régime de faveur" for beneficiary enterprises which have or will be investing a minimum of social capital amounting to 5 million Rwandais francs. Priority enterprises are those that include "industrial crops involving a stage of processing or conditioning or any other designated by the

Source: Left-hand table as reported by members of OECD's Development Assistance Committee. Totals represent the net flow of private capital to the developing countries and the multilateral agencies. Australia and Portugal are not represented as four-year totals are not available.

Source: Right-hand table as reported by selected countries to the International Monetary Fund (Balance of Payments Yearbook, *Vols. 16 and 17). Totals represent the net flow of long-term private capital — direct and portfolio investment including reinvested earnings. 1964 figures are preliminary. Totals for Uruguay, Sudan and India exclude private direct investment; totals for Ethiopia, Ghana, Nigeria and Jordan are for direct private investment only; while totals for Chile, Somalia, Indonesia and Malaysia do not include 1964 figures.*

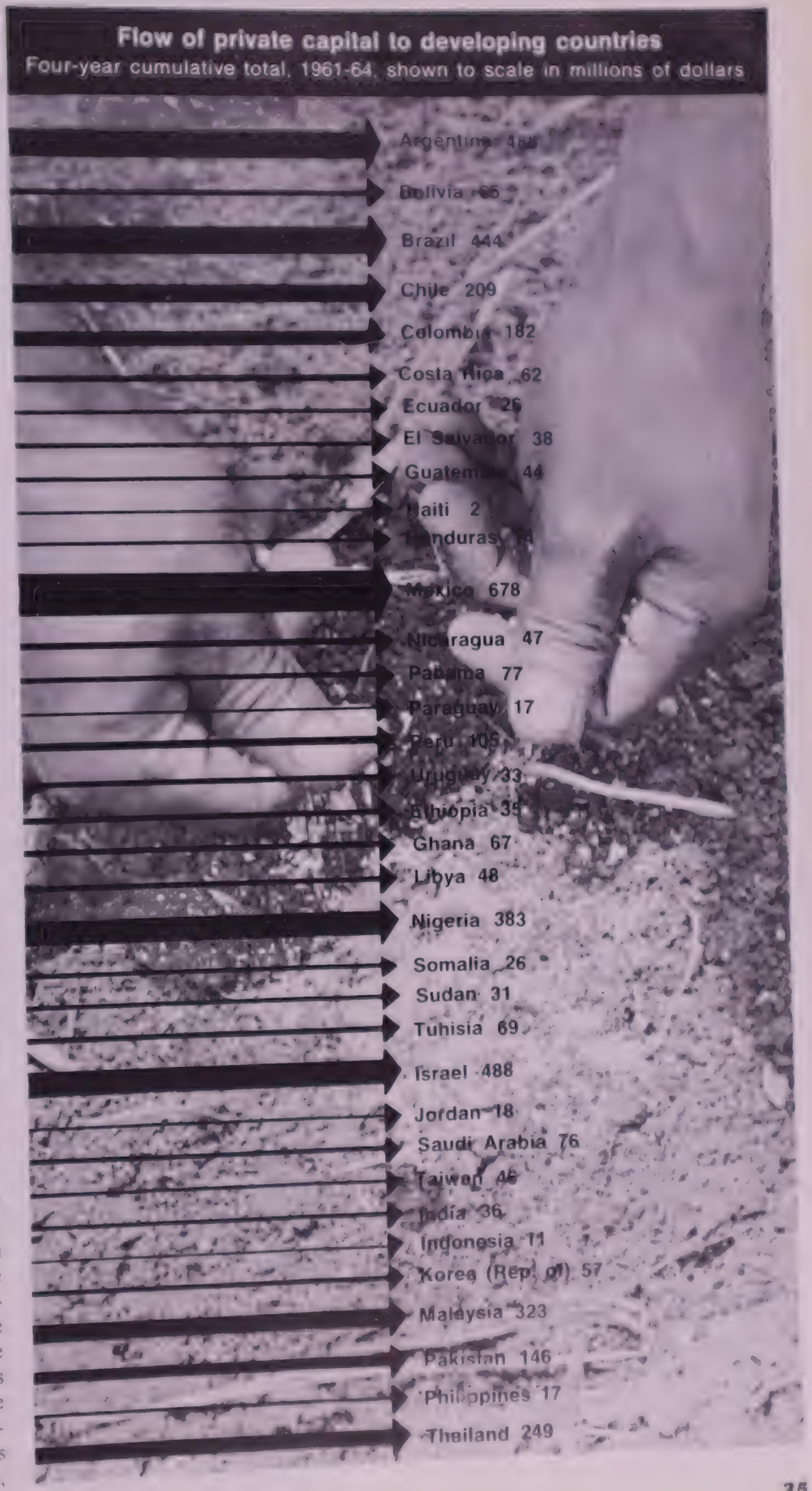
nisterial Plan Council as priority
e economic benefits are classified
cording to four different regimes de-
nding on the size and duration of the
vestment project. A larger amount of
pital contributing to the National Plan
entitled to benefit from a stabilized
cal regime, while ordinary investments
e exempted from duties on certain ma-
rials, or allowed reduced rate according
the contract of investment or the
opinion of the Minister of Finance."

In Burundi, "priority rights" are grant-
inter alia to industrial cultivation and
rming and those enterprises which are
gaged in processing, preparation, treat-
ent and transportation of produce of
ricultural and animal origin. In con-
ast to Rwanda, which has four types,
ere are only two types of regimes:
e grants exemptions from custom
ties "over a certain period of time,"
d the second for 15 years.

Kenya and Uganda in eastern Africa
acted their foreign investments pro-
ction acts in 1964. The Kenya legis-
tion defines "agricultural investments"
those which are made to increase the
ricultural potential of a farm or an
tate. Uganda includes it under the
neral title of "approved enterprises."
he latter is defined as *inter alia* an
dertaking or business or property or
enlargement of any investment or
an.

In both countries a holder of a certif-
ate for approved enterprises is entitled
transfer out of the country the profits
d approved professions of the net pro-
eds of the sale. In Kenya, where invest-
ent guarantees are not granted to effect
change of owner, the new investor will
ve to draw up a development pro-
amme to expand the agricultural scheme
intends to purchase and this must
approved by the Minister of Agri-
lture.

The Investment Decree of Ethiopia
vers agricultural, industrial, mining,
ansport and touristic enterprises which
nefit from its operation. Among the
any agricultural enterprises in Ethio-
a, the coffee and grain plantations are
e oldest and they are in the private
ctor. But the Government exercises
certain degree of control through the
offee and the Grain Boards: The Invest-
ent decree stipulates the conditions
which the profits of foreign investors,



net proceeds of any sale, and payment of interest can be transferred. But it is the Ministry of Agriculture which determines the "priority," amount and type of exemptions. These may include duty free purchase of fuel and import of machinery and equipment for agricultural purposes.

In the western subregion, Liberia and Guinea provide extreme examples — the former relying heavily on the private sector while the latter relies on the public sector. The Investment Incentive Code of Liberia is applicable to "Approved New Investment Projects" including a substantial expansion of the existing one. Incentives under the Code are granted to enterprises which (*a*) process, fabricate, or assemble raw material and/or semi-finished products into commercial products, and (*b*) engage in other productive activities *inter alia* such as agriculture, logging, and investing money credit, machinery for (*a*) and (*b*).

Nationalization and guarantees

Economic inducements are granted in the form of exemptions from custom duties and taxes on income and profits: the exemptions from custom duties are granted on construction materials, machinery, equipment and raw materials, for five years from the first importation.

Exemption from income tax is granted for five to ten years from the first year of marketable production as determined by the Government. In the case of agricultural projects, special consideration is to be given to the length of the period required to begin production as well as to the size of the investment. Income exempted under the Code from taxation is not to exceed 150% of the capital investment of the project.

"Approved enterprises" in Guinea in both the public and the private sector have been defined as those which have "special importance for the development of the economy" and include those which are engaged in transferring through mechanical or chemical processes vegetable or animal products of local origin. These enterprises are entitled to favoured treatment, which is progressive according to the importance and size of the investments in relation to the development of the country. Materials equipment and raw materials needed to establish such enterprises are totally or partially exempted from import duties and the fiscal advantages are published in the Official Journal.

In other countries of west Africa, particularly Nigeria and Ghana, the original development plans have been either abandoned, or shelved due to changing political factors, but the Capital Investment Act in Ghana, which was passed to help implement the seven-year development plan, has been retained. The same is mainly true of Nigeria's diverse fiscal and other statutes. In Ghana, there have been recently some shifts in favour of the private sector. Private ownership and management have been recently approved for meat products and sugar, and there has been a simultaneous return to private cocoa buying.

Most countries in Africa have indicated their policy regarding nationalization in either the constitution or investment laws or economic policy statement. (Most investment codes use the expression "expropriations" which legally means the compulsory acquisition of private property by the State.) Those countries which provide for nationalization have also given a legal guarantee for fair or adequate or equitable compensation.

Ethiopia and Libya have incorporated provisions to protect private property in their constitutions, while the Investment Code of Dahomey stipulates that "equitable compensation" will be granted in case of expropriation. Liberia, on the other hand, has announced that it has no intention to nationalize any foreign investments. Both Uganda and Kenya have specifically enacted investment laws to "protect" private property. These reproduce the provisions in the constitution.

Tanzania's President Nyerere has recently assured investors regarding the payment of fair compensation in the event of nationalization. The total value of such compensation would amount to $30-$40 million partly in foreign exchange and partly from future dividends.

In 1967, Parliament approved the nationalization of six major companies and partial nationalization of thirty-three others in Tanzania. A number of major agricultural projects were brought under the National Agricultural Products Board. In some instances, however, notably the British American Tobacco factory, the Government accepted less than a 50% share. At the same time, the Government recently announced that private investment was welcome outside the areas reserved for the public sector.

Agricultural development legislation in Africa is a very new subject. It is to be expected, therefore, that it reflects a lack of coordination between the economic and legal strategies of development. This remains true even for the French-speaking countries in Africa, which by and large, following the French tradition, have paid greater attention to precise codification of investment laws than the English-speaking countries.

The recognition by the policy-makers of the importance of bridging rapidly the gap between the actual and the potential agricultural output in African countries has come about only recently. There has not been sufficient time yet to translate this recognition into a coherent development strategy, aiming at mobilizing all resources — domestic and external supplies of capital and skills — for rapid agricultural advance. But it would strongly encourage the elaboration of complementary legal strategy for agricultural development.

More legal guidelines needed

The precise content of such agricultural development legislation would vary from country to country in Africa. Nonetheless, its provisions would have to deal with the advantages to be derived from public and private external aid for the needed requirements of investment and skills. Among the areas for which such provisions would have to be worked out in detail, the following would be particularly important: (1) plantation and export crops; (2) technical aid in raising productivity in other crops for domestic use and animal husbandry; (3) development of agro-industries, which would help process further available agricultural products; and (4) establishment of those industries upon which depends the progress of agriculture (e.g. fertilizers, insecticides, agricultural equipment, tractors, etc.).

Unless precise legal guidelines are laid down, it is difficult to see how the general recognition of the possibility of rapid agricultural advance in African countries could soon be translated into concrete projects. ■

A giant in Malaysia

by ***BRIAN TAYLOR***

Who wins, who loses, when a worldwide corporation invests in a country rich in raw materials

Driving out on the highway from Kuala Lumpur toward Petaling Jaya, the satellite industrial estate, is at first like being in England: the same well-surfaced curving roads full of Jaguars and Morris Oxfords; the same cumulus clouds building up like giant bruises above the green trees.

But the reality of southeast Asia asserts itself with the sight of a bearded Sikh on a bicycle, an ancient Chinese woman shuffling and swaying along with the stick across her shoulder supporting two enormous stoves, a trio of Malay children being driven home from school in a rickshaw. One realizes that Japanese cars outnumber the British and that the trees are 80 feet high instead of the expected 18 feet

All roads from Kuala Lumpur lie through square miles of rubber trees, each with its blind beggar's cup, marching in geometrical progression into the leafy distance. The marks of tin mining — vast dredges and crazy wooden scaffolding awash in pools of grey water — are everywhere. To the east, the high rain forests — haunt of the hornbill and the gibbon — are gradually giving way to the demand for land, and the tiger may soon be as rare as the rhinoceros. The oil palm estates, most recent of the country's four main resources, lie further south. Timber, fourth element in Malaysia's economy, is being extracted mainly from East Malaysia.

One of the first to invest

The factory belonging to Lever Brothers (a wholly-owned Unilever subsidiary), borders the highway on the fringe of Malaysia's capital city. It is a complex of manufacturing and office buildings built around a railway spur line which tanks in the raw materials — chemicals, oils and fats — and carries out the finished products: detergents, soaps, cooking oils and fats and margarine.

When it was built in 1952 there was no industrial estate and, in fact, no Malaysia. The country was still under what the British colonial rulers called 'The Emergency' and plantations and processing plants alike were subject to strikes and civil strife. The factory was opened at the end of 1952, five years before independence, by General Sir Gerald Templar.

All that is history now. The British are friends and allies, their idiosyncrasies tolerated, their tails sometimes tweaked, their advice often ignored. Malaysia is very much its own master with a host of young government planners trying to cement together a multiracial society in which the Malays just about equal the Chinese, Indians, Pakistanis and others in numbers, with Malays representing a low-income rural segment and the Chinese a commercial urban class.

Malaysia, today, occupies some 127,000 square miles of territory: West Malaysia being the lower half of the peninsula which dangles down from the mainland, at the extreme end of which sits Singapore; East Malaysia being Sarawak and Sabah, the northern portion of what used to be called Borneo.

But back in 1952 the geo-political situation was not so clear and it is a little surprising that Unilever took the decision to invest nearly $3 million in its Malayan subsidiary until one remembers that it was part of the company's worldwide search for raw materials; in this case palm oil for soap manufacture.

Of course, the investment has paid off for Unilever: sales of detergent powders are twelve times the 1953 figure; toilet soaps are up four times the 1953 total as are the edible products, including margarine. Sales of edibles (shortening, *ghee*, cooking oils and margarine) are expanding at the rate of 15% per annum. Last year, the factory produced some 8,000 tons of edible products, half of this being margarine.

The smell of expansion is in the air: the development staff are working on new high-quality margarines and many of the management are helping to launch a new subsidiary in Singapore.

How was such progress achieved in the face of a shortage of skilled labour and specialized knowledge, the pressures of nationalism and an unsophisticated market by European standards?

Take margarine as an example: "into which business we drifted because of its close connection with oils and fats for the soap kettle," according to Lord Leverhulme in 1918. Margarine is an interesting child of modern technology which can now be made from a wide range of raw materials; with characteristics which can be altered to suit the market needs; and which can be manipulated to compete nutritionally with, and even to surpass at a price, its natural competitor — butter.

In Malaysia, margarine is made from locally-grown products: palm oil and coconut oil. Part of the palm oil is hardened and then the three constituents are refined, bleached, deodorized and blended together. Margarine is made from an oil/milk or an oil/water base. In Malaysia, the oil is mixed with ordinary water (largely because of storage problems in such a hot climate where refrigerators are not common), emulsifiers, colouring agents and vitamins are added and it is then poured into containers where it crystallizes into a compact mass.

In Malaysia, margarine is used either for baking or as a spread. Shortening is not used in the house and coconut oil is traditionally used for frying. As a spread on bread, margarine compe with butter, jams and such local favou ites as *kaya*, a sweet honey.

The increased use of bread througho Asia is a rather strange postwar phenor enon brought about by shortages rice, or of preferred rice, high rice price the influx of North American wheat the form of aid, the communicati explosion, possibly the influence of c lonial taste, improved standards of livi and the gradual infiltration of convenien foods.

In Malaysia, for instance, bread is no being used in most homes, particular for school lunches. With the rise bread-eating has come a rising consum tion of margarine... a slow but stead progression which has meant that M laysia's two margarine producers Lever Brothers and Lam Soon — ha gradually increased factory productio

"Our latest market survey shows th 83% of the Malaysian population e bread frequently, 27% daily," the Lev Brothers marketing manager told m "We are competing with slightly mo expensive imported butter of cours but we have certainly not knocke out locally-made spreads; on the co trary, our sales programme has probab greatly increased the use of spreads general. What is happening now, fact, is the slowly increasing use of double spread, margarine used in com bination with jam or some other i gredient."

Of course, such a rise has not bee entirely spontaneous; the selling mech nisms of a consumption-oriented socie have been at work — radio, film an television commercials, house-to-hou selling and cooking demonstrations to take full advantage of higher wag and the desire for more leisure tim

Sixth largest in the world

Unilever — a giant even among companies operating on a worldwi scale — has done well for itself in Mala sia, as it has in so many other countrie Product of a 1929 merger of Briti and Dutch interests, it encompasses ov 500 businesses in more than 70 countrie Its turnover in 1965 was well ov $6,000 million — three times that 1948. It ranks sixth in wealth among the world's leading companies, after Ge

ral Motors, Standard Oil, Ford, Royal Dutch Shell and General Electric, wealthier by far than many of the developing countries in which it operates.

Mike Cullen, tall and balding with a laugh like a cackling hen, has a misleadingly weary and languid air. He is chairman of Lever Brothers in Malaysia, the epitome of the professional manager, the reason why Unilever dares to allow so much autonomy to their subsidiaries in the field.

I asked him, and many others in the country, whether Malaysia had benefitted from the Unilever presence. "First of all, we supply a dependable standardized product. Then there is the benefit of worldwide research and experience which has gone into the making of such products," he replied, citing the margarine research centre at Vlaardingen, in the Netherlands, which has helped to fit local raw materials into production.

"We provide regular employment even during bad times, and medical services which have set standards for other companies," he went on. "We have incidentally helped to increase food supplies and to raise nutritional standards. We use Malaysian produce, train unskilled labour and bring increased business to suppliers and retailers. Finally, through advertising and services on the one hand, and reasonable wages and hours of work on the other, we have helped to raise the country's living standards.

"We have more than 600 workers and clerical staff here," Mr. Cullen told me as we passed through the main factory gates surrounded by a crowd of women packers in white overalls. "Also almost 60 people whom we consider as management, including area sales managers, production managers, accountants and personnel officers. The staff is headed by myself as chairman and four directors looking after the technical, marketing, commercial and personnel aspects."

Many of the management have been promoted from within the company and almost a third of the total staff have the traditional gold watch marking fifteen years' employment. An enviable record, but probably due to the high rate of unemployment and scarcity of good jobs rather than to undoubtedly satisfactory wages, the help which the company gives in obtaining housing mortgages and the company contributions to workmen's compensation and the provident fund.

The wages at Lever Brothers are surprisingly high by Asian standards, even taking into account the fact that Malaysia has one of the highest per capita incomes in Asia, and that its dollar is an International Monetary Fund loan currency. A charge hand gets about $100 a month and makes another $40 on overtime; a foreman about $300 a month (both by union agreement); while a department production manager gets from $5,500 to $7,000 a year (non-union) — comparable with European standards.

There is an old Malay proverb which says: "This world is a borrowed world." It reflects the country's social imbalance in which Malays dominate the rural sector and the Chinese the commercial class. Conflicts sometimes arise where the two classes impinge: many Malay smallholders are in debt to absentee landlords and to middlemen who supply agricultural materials — fertilizers, pesticides, farming implements — and the means of transporting and selling the harvested produce.

A special government agency — the Council of Trust for the Indigenous Peoples — better known as MARA, has been created to accelerate rural development and to increase Malay incomes, through investment surveys, agricultural advisory services, and training facilities. MARA is quite prepared to finance and carry out agricultural projects on behalf of smallholder groups. Sometimes MARA invites private interests to come in and help, contributing capital and expertise in return for a percentage of the profits. A Japanese textile plant was set up on this basis and MARA is now negotiating

Rubber tree charcoal is a principal raw material of Malaysia's first steel plant, sponsored and financed by the World Bank together with Japanese and Malaysian interests

Signs of underemployment are evident throughout the country and one hears stories of Malaysian engineers who are still not working two years after graduation.

Unemployment may well be the number one problem for the developing countries within the next few decades until birth control programmes become effective. Certainly, in Malaysia it will exacerbate and inflame the already delicate racial problem.

with private Canadian timber interests.

"Cooperatives have a certain stigma here," Inche Osman Sham, director of MARA, told me, "largely because of failures in leadership at the village level. We call them farmer associations now and put all our resources into training the young men we need to organize and direct these groups."

It seems paradoxical in countries like Malaysia to place so much emphasis on training when there is considerable unemployment. But it is not really so strange for there is as big a gap between the pool of unskilled labour and the skilled worker as there is between an inexperienced university graduate and a competent manager. These are the gaps which Malaysia is trying to fill with vocational training centres and postgraduate scholarships.

"We have had to depend on an extensive training programme in order to replace expatriates and upgrade nationals," said Mr. Cullen. "Virtually all our managers have spent time away from here taking courses in Australia, India or Europe."

Expatriates kept to a minimun

The government hopes that all non-professional and nontechnical posts in foreign-owned firms will be occupied by Malaysians by 1975. Expatriates can remain in a minimum number of key posts though, depending upon the amount of investment concerned and the degree of policy-making responsibilities exercised by the subsidiary company.

"We are almost completely Malaysian now at the factory," continued Mr. Cullen. "There are only two expatriates left — myself and the marketing manager — apart from an occasional consultant." And it is true that the company has extensively replaced expatriates, though the ethnic mix at management level seems somewhat disproportionate; Malaysians of Indian and Singhalese origin hold down the top production jobs, reflecting a 'brain-drain' drift of technologically-trained personnel within the third world; while most of the sales force are Malaysians of Chinese origin.

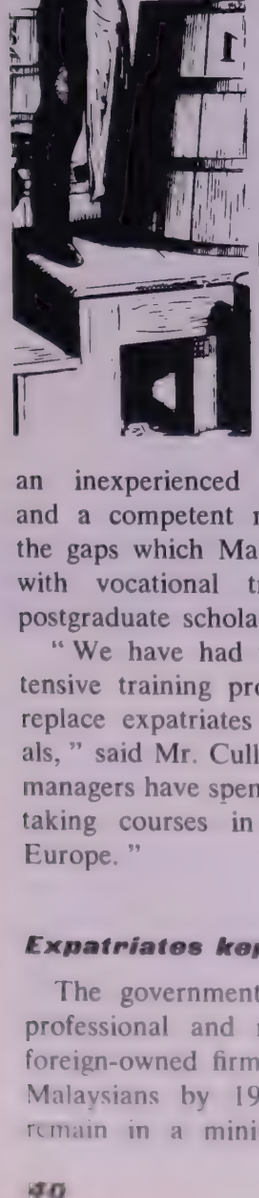
This wave of nationalization is not reflected at Unilever headquarters in London where few of the permanent headquarters staff — including the marketing staff servicing Asia, Africa and Latin America — come from the third world. In his study of the company, Professor Charles Wilson says that in the ten years, 1955-65, total Unilever manpower increased 10% and management nearly 50%. He puts this down to the increasingly sophisticated demands of the industry, but it might well be explained by a lowering of the management curtain to include far more nationals in the operating companies.

Unilever makes few concessions so fa as automation and unemployment ar concerned. "The cost of labour in Ma laysia is steadily increasing," repor Mr. Cullen. "We need new equip ment to improve standards and we fe that increased production is the way t employ more people rather than a de liberate go-slow on mechanization."

The company has freely taken profi out of Malaysia, though there has bee considerable re-investment to pay fo production expansion: the non-soap detergent factory and the ice-cream pro duction line were entirely self-finance Growth of capital employed during th fifteen-year period, 1953-67, in Malays was at a rate of 2.2% against a return the investment of 8.7% — the last tw years being at an even larger profit f ure. Unilever shares are rightly call the bluest of the blue chips for in t decade 1954-64 profits have averag 8.8%, with peaks of 10% in 1956 a 1959.

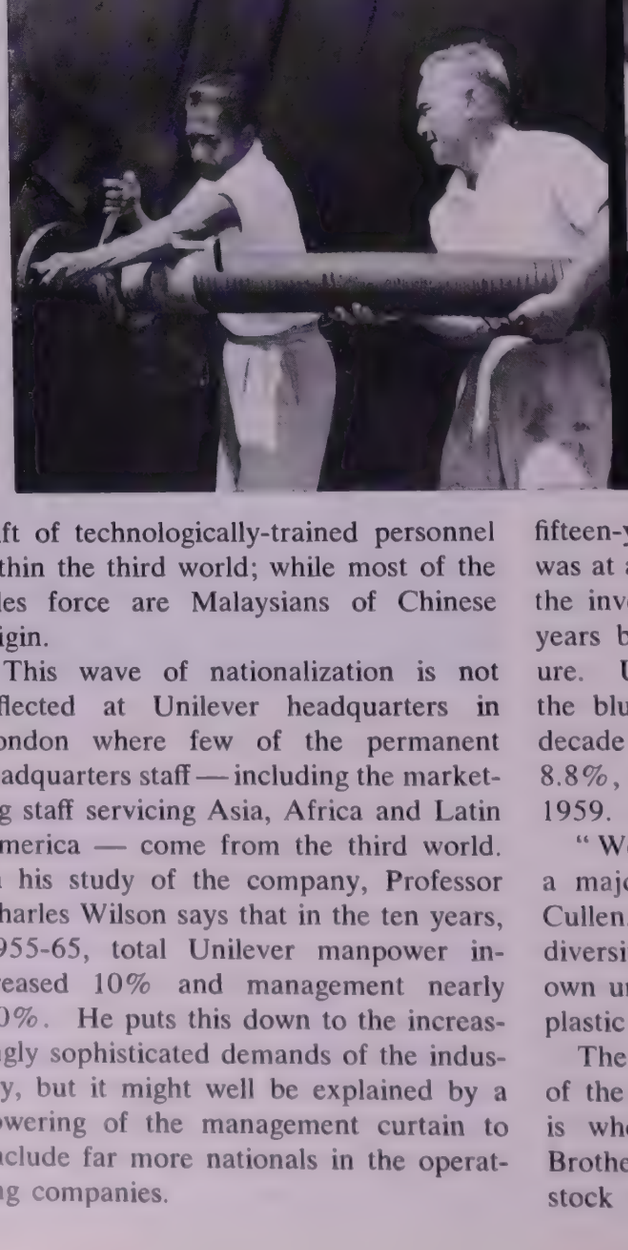
"We will invest more money wh a major opportunity arises," says M Cullen. "But Malaysia must increase a diversify its produce and develop own unique potential rather than mak plastic cups like everyone else."

The Malaysian operation (consist of the factory and two oil palm esta is wholly owned by Unilever. Le Brothers are not listed on the natio stock exchange and the only way

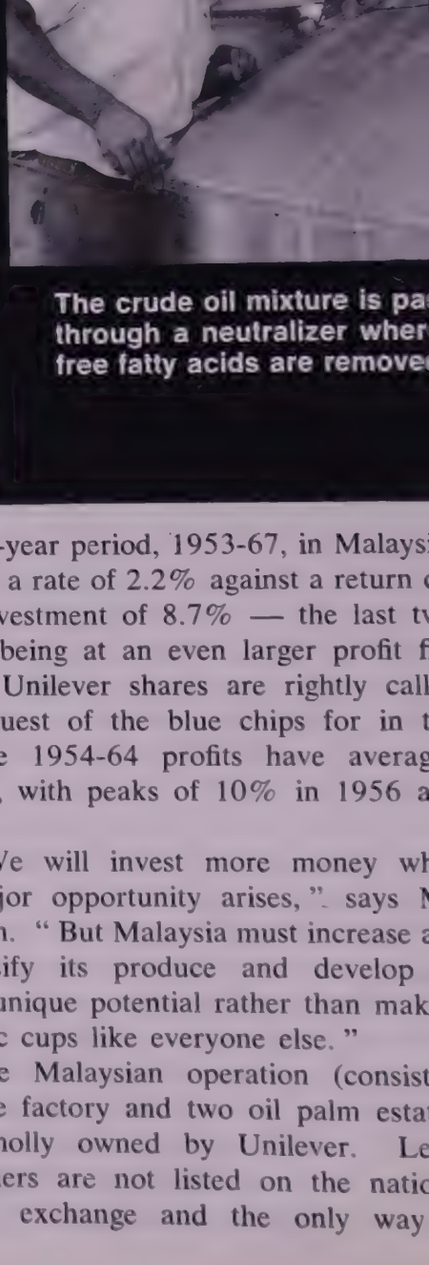


1869 - a hundred years ago Mège - Mouriés, a French chemist, faced with the challenge of producing a cheap substitute for butter, built a mechanical version of the cow's stomach which converted beef fat, milk and water to margarine.

1969 - today, margarine accounts for one seventh of the world consumption of edible oils and fats.



Palm oil and coconut oil, two major ingredients of margarine, are pumped from rail tank-cars into storage at the Malaysian factory



The crude oil mixture is pa through a neutralizer wher free fatty acids are remove

etting a piece of the action is to buy Unilever shares wherever they are avail-ble. It has never been company policy o offer shares of subsidiary operations n the national stock exchange, though hey have done so in a few cases, in ndia for instance.

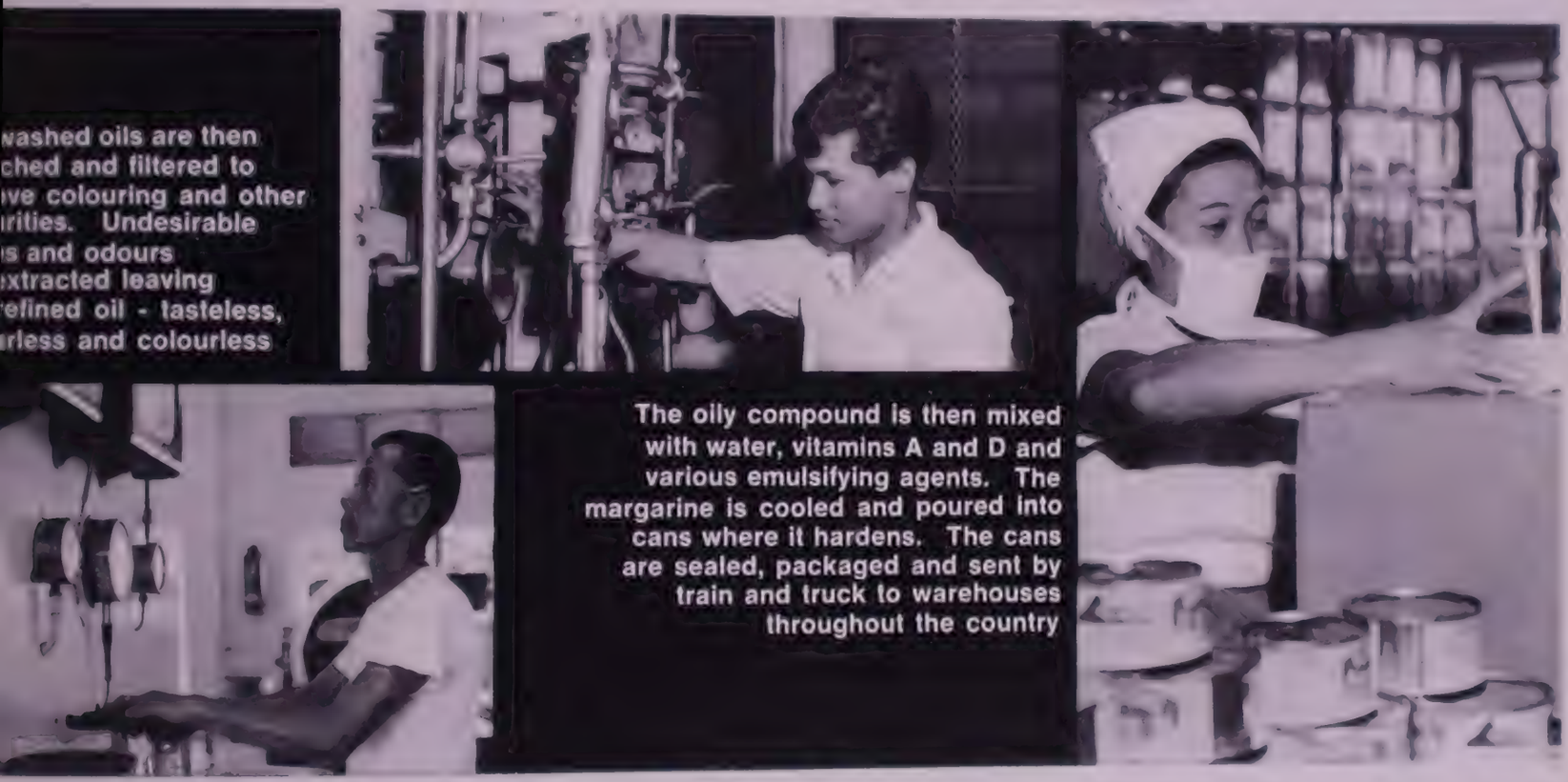
"We have had to be flexible in our pproach to the developing countries," ays Mr. R.B.A. Cantopher, a member of he Unilever's powerful Overseas Com-ittee which supervises the activities in 0 countries, including Malaysia. "We y to retain a majority interest, though f course the pattern differs depending pon political circumstances, which often hange during our tenure in these coun-ries.

"In Ghana, for instance, we were stablished as a 100% subsidiary, al-hough later the government accepted a 9% minority shareholding," he contin-ed. "In Turkey we were established on n 80% basis (with 20% being held by a Turkish bank). So far, Japan is the only ountry where we have deliberately gone n on a minority basis (45%), though we ave since obtained a majority interest."

The Malaysian government, on the ther hand, would like to see foreign nvestment coming in as a joint venture, vith a majority of shares held within he country. One of the requirements f the 'pioneer status' tax incentive cheme is that at least 50% equity be eld locally (10% by Malays), though not necessarily by government interests.

There certainly seems to be plenty of local capital available unlike the situation in many other developing countries. There has been little difficulty in obtaining public participation and it is not unusual for likely ventures to be ten or even twenty times oversubscribed.

"The government has no intention of nationalizing business," said Tan Sri Dr. Lim Swee Aun, Minister of Commerce and Industry, recently. "Economic development is tied in with the private sector and the government has adopted, and will continue to adopt, a free market economy." This policy has been backed up by agreements which Malaysia has signed with the United States and the Federal Republic of Germany that assets of national of these two countries will not be nationalized. The country is prepared to sign similar agreements with any other country and is also a signatory to the Convention on the Settlement of Investment Disputes.



washed oils are then ched and filtered to ve colouring and other rities. Undesirable s and odours xtracted leaving efined oil - tasteless, rless and colourless

The oily compound is then mixed with water, vitamins A and D and various emulsifying agents. The margarine is cooled and poured into cans where it hardens. The cans are sealed, packaged and sent by train and truck to warehouses throughout the country

Offering incentives to investors

A major step in attracting foreign capital is the Investment Incentives Act, which came into force at the beginning of last year. Broadly speaking, this provides for two categories of incentives: (1) covering the establishment of manufacturing plants; and (2) covering the export of manufactured goods.

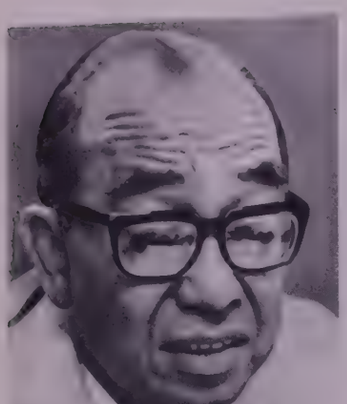
The first category includes the so-called 'pioneer status' which gives varying tax relief for the first two to eight years depending upon the amount of capital and what it is being used for, as well as various other tax exemptions — and investment tax credit which provides for tax deductions for those companies which do not come under the 'pioneer status'.

The second category, which aims at increasing manufactured exports, includes: tax deductions for promotional purposes; an accelerated rate of depreciation on capital expenditure; and tax deductions for the use of Malaysian raw materials.

Tariff protection is used as a government tool to encourage local industries, including foreign-owned industries. "We have weekly sessions to consider import applications," says Tuan Haji Sujak, chairman of the Tariff Advisory Board set up to advise the government on tariff protection. "We go into the smallest details of each application," he said. "You should read the transcript of our inquiry last week into cheap bicycles being dumped here from the Chinese mainland — very revealing and very funny.

"Until recently we also considered applications for 'pioneer status'," he continued, "and you can see how this has grown by the figures: from 3 in 1966, to 34 in the following year and 62 in the first few months of last year. Only

RAZAK: *WE WANT INVESTMENT BUT...*



Tun Abdul Razak, *Malaysian Minister of National and Rural Development.*

What do you think are the main problems facing Malaysia's economic growth?

Shortage of money is certainly one of them. Although Malaysia's currency is sound we seem to be running short of our requirements for continuing economic growth. Our 5-year plan, now in mid-term, budgeted some $1 900 million from outside sources but much less than half of this amount has come in so far.

Another is the fact that rapid population expansion is bringing with it the need for more employment possibilities. Our unemployment problem is not too bad so far, compared with other countries, but it will get worse unless we take positive action. (In Malaysia more than half of the population is under 21 while there is 6.8% unemployment in a working population of some 6 million.)

These two problems, I am sure, are common to southeast Asia as a whole and, in fact, to most of the so-called developing countries.

You don't think that tensions within Malaysia's multi-racial society constitute a major problem for the country?

Our multi-racial population can be a strength rather than a weakness. One of our objectives is to unify these racial groups so that ultimately they regard themselves as members of one nation rather than of different communities. Politically, it can be a problem but this unity must be achieved to ensure peace and stability in the country. (Malaysia's total population in 1967 was 10 million. West Malaysia's 1967 population of 8.6 million included 50% of Malay origin, 37% Chinese and 13% others — largely Indian and Pakistani origin. In Kuala Lumpur it was 15% Malay, 61% Chinese and 24% others.)

The main burden of this development must, of course, be carried out by the Malaysians themselves — what are your major objectives at the present time?

We hope to generate economic growth by opening up new areas of land and by diversifying the economy. In the past, Malaysia has depended on rubber and tin for the major part of her overseas earnings; now we are the largest producer of palm oil in the world. We are concentrating on food crops for we import some $150 million worth of produce which we could grow ourselves. Rice is an example — we hope soon to be self-sufficient in rice production, thus saving foreign exchange.

This country, like so many countries of the third world, is largely concerned with primary products. But freight costs are high and we have no shipping fleet — though we are about to launch a national shipping organization — which means that our costs in exporting these raw materials are too high. It is considerably cheaper, for instance, for Japan to sell its goods to Europe than for Malaysia because of this transport factor.

We must endeavour to close this gap and also to do more to establish semiprocessing or processing industries which will replace part of the low cost bulk exports with higher value finished products — our timber industry is a case in point.

What do you think is the role of public aid from outside Malaysia — both bilateral and multilateral — in this long-term development programme?

We have not had a great deal of aid though we would like far more credits and loans. There has been hardly any US bilateral financial assistance and I am not sure whether the £25 million, which we are getting from the UK in compensation for withdrawal, comes into this category of assistance. We are certainly satisfied with the World Bank and UN assistance generally and would like to see more projects receiving aid.

Where does foreign private investment fit into Malaysia's long-term economic plan?

All countries are welcome to invest here and we have offered considerable tax and other incentives. We would like to see a partnership with Malaysian interests and we think it is to the advantage of companies settling in Malaysia to come to such an arrangement, but we are certainly not forcing such a partnership arrangement. We have a free enterprise economy and investors can freely take away their profits after taxes.

I see no change in this situation in the future, though naturally we would like to see the maximum reinvestment in Malaysia to help our unemployment problem.

What is Malaysia's attitude to ASEAN and the idea of a regional common market?

The time has come for southeast Asian countries to look beyond their own countries so far as economic development is concerned. We are hamstrung by a limited domestic market and an excessive dependence on traditional markets. ASEAN could do a tremendous amount of good in increasing intra-regional trade and industrial growth.

one or two were turned down and most of them are already in business."

As of November 1968, 140 companies have been granted certificates involving capital investment of some $140 million and employment opportunities for 17,000 potential employees; 107 other companies have been granted approval in principle, involving a further $50 million worth of capital and a further 15,000 workers. The ratio of such 'pioneer status' companies to the others, in terms of value of production, is about 1:20 but this has been achieved in a very short time.

Manufacturing accounted for 11.4% of the gross domestic product (GDP) in 1967 compared with 10.2% the year before; as well as employing about 7% of the entire labour force. Manufacturing exports totalled 15% of total export earnings in 1967.

"Our planning policies may sometimes lead to a monopoly," said Victor C. de Bruyne, chairman of the Federal Industrial Development Authority, which promotes industrial development through investment studies. "No government likes monopolies but we tolerate it here because the domestic market is so small. The tire market, for instance, is only large enough to support Dunlop, though they do export tractor tires to other countries in the region.

"Southeast Asia has developed on a national rather than a regional basis. The region has been dominated by the United States, the United Kingdom, France and the Netherlands and these are the national interests which are most firmly established with a corner on the available raw materials. The trend is slowly broadening but trade is still oriented toward these four powers," he continued. "Japan is already a large investor here, for instance, and she will be larger: she takes 90% of the timber in Sabah, areas measured in hundreds of thousands of square miles.

"We have to import far less manufactured goods now," he said, "and raw material substitution is becoming our big concern these days, rather than import substitution. We have plastic goods industries here," he explained, "which use only imported raw materials. We must produce the needed raw materials too. And we need more sophisticated processing of the raw materials we produce. Take timber, which is mostly exported

as it comes from the sawmill. We need veneer plants and hardboard factories to upgrade the finished product."

The Malaysian economy has traditionally been dependent upon rubber, tin, timber and, lately, palm oil. Tin prices have been falling from the 1965 peak and rubber is in cut-throat competition with its synthetic cousin. Timber exports have been steadily increasing in volume and value, but palm oil prices have wavered against competition from soybean oil from the United States and sunflower-seed oil from the Soviet Union. Rubber accounted for nearly a third of Malaysia's exports by value in 1967, with tin and timber together accounting for a further third.

Future prospects will depend upon rubber prices, which have risen again over the past half year, the success of new measures to attract foreign investors and of the government plans to diversify the economy: 10 million acres of uncultivated land are destined for development — for industrial estates, oil palm and food crops.

Rational though the government's policy may be toward foreign investors, it looks as though the country has little other alternative. It cannot afford to narrow the open door, to insist on more policy control, to restrict free outflow of profits. Its next-door neighbour is living proof of what happens if such a course is followed.

Malaysia has a small population and is dependent upon overseas markets for its raw materials: it desperately needs investment and the skills which come with it, particularly industrial investment which can substitute for imports or help to raise the value of exports. For some time to come it will be at the mercy of the market, following the ebb and flow of world prices for rubber, tin and palm oil.

It is faced with the peculiar dilemma of the third world, of the group of 77, politically free but economically tied to the apron strings of Europe and North America by the need to sell its produce at whatever price it can get, in open competition with other producers in Africa, Asia and Latin America, because of the threat of technological substitution and of hesitancies over commodity agreements.

REUTER: *WE WANT TO INVEST BUT...*

Richard W. Reuter, *Director of Area Development, Kraft Foods, (USA).*

By and large the food industry has not yet brought to food marketing, such an important aspect of development, more than a small part of its very considerable resources — product research, marketing techniques and production know-how.

What are the deterrents?

Essentially, business is business. Its purpose is profit. The largest single deterrent, in my judgment, is the unlikely short term profit potential in the less developed countries. There has been greater profit attractiveness *for an equal effort* in the so-called developed countries.

Market studies, feasibility studies, and other tools of persuasion for business decisions are difficult in countries without the infrastructure for creating them. Management is used to reliable statistics for forecasting and to sophisticated tools for evaluating relative profitability.

Top management may, in all good faith, agree that a company should expand into developing countries. But, in fact, in setting priorities it continues almost instinctively to turn to the things that need doing in already-established operations first.

As we look at this basic question of profitability in the countries affected by food shortage, we find there are a series of specific deterrents:

1. The relative instability of government, and particularly the instability of government policy, increases the risk factor and inhibits long term projections. The tendency too often is to be antagonistic to the requirements of the foreign investor. Repatriation of profits and original investment are frequently circumscribed. Even with goodwill, the bureaucracy often is tortuously slow in decision-making. Although this is much less true than just a few years ago, many developing countries still fear an economic colonialism and support nationalist-oriented restrictions that are too unattractive to the investor, no matter how well motivated he may be, to encourage indigenous development.

2. The free movement of products between countries, even within an economic region, is so restricted as to limit the use of comparative economic advantage in making available low cost nutritive product. It would be useful, for instance, if products could move to neighbouring countries without duties being levied that would raise the price above the purchasing level of the very people the governments of those countries are anxious to reach. Facilities cannot be built in each country during this development stage, yet the free flow of products generally is restricted. The Central American Common Market is a particularly bright spot in this regard. Yet, it is distressing to see the pattern emerging in Latin America of providing total import restriction to "protect" the new industry. The consequent lack of competition and incentive can keep prices too high for the people.

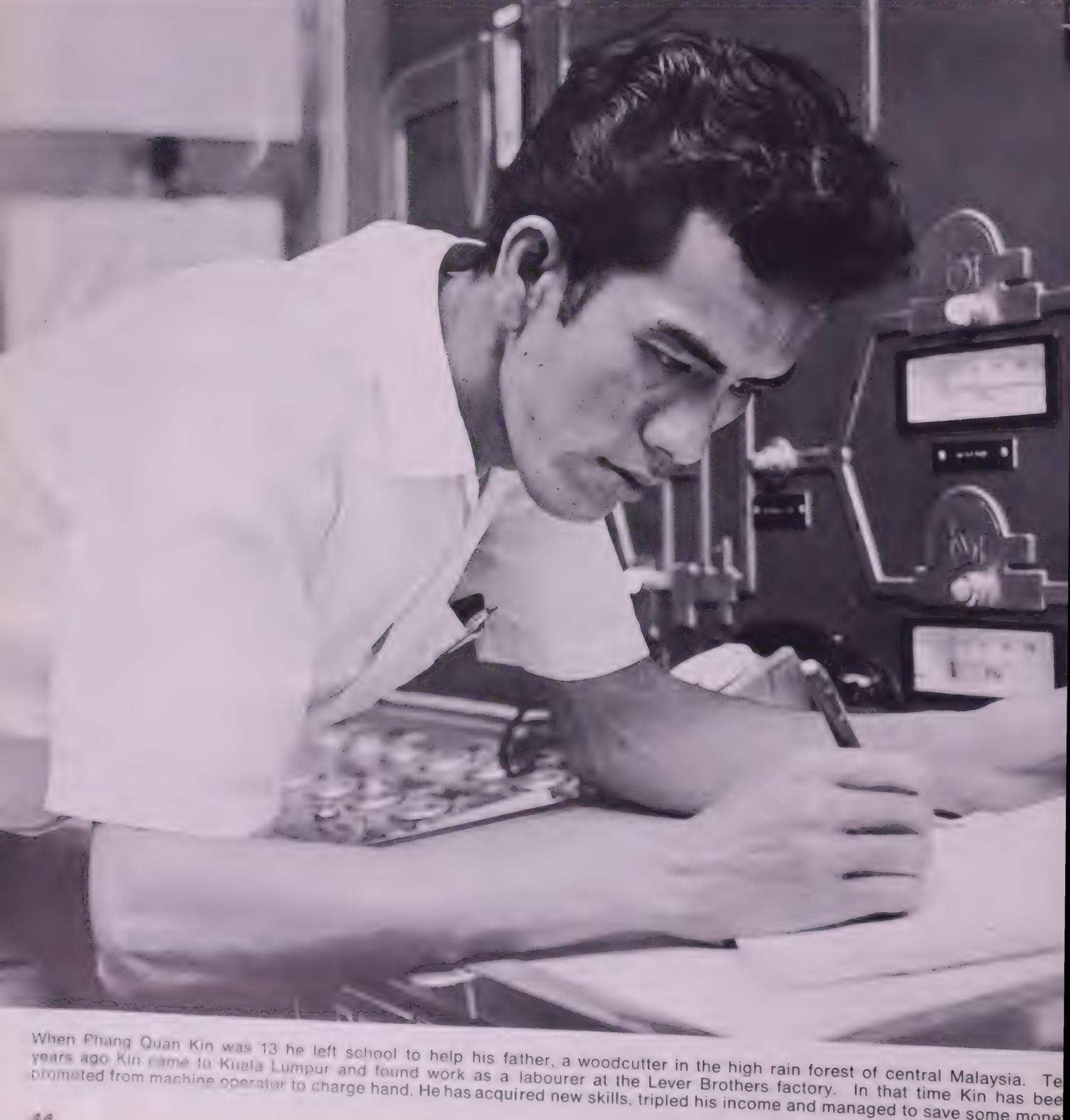
3. The educational level of the people in many of the less developed countries makes more difficult the adoption of modern methods of food production, processing and distribution. Deep-seated beliefs hinder the development and use of obvious national food assets. Most important is the fact that malnutrition itself saps the will to improve. This makes the introduction of a new product difficult even though it may be a highly desirable and relatively inexpensive one.

4. A large percentage of people in developing countries live outside a market economy. They do not live on income; they live on lack of expense. For many millions, still in 1969, no product is cheap enough; they just are not buying, or selling, anything but live on a simple low level barter type economy. Often the society moves from that level to that of the wealthy who can, and do, buy everything. A middle class does not exist and is only slowly being formed. There is a disturbing gap between the consumption necessities and the effective economic demand. (This, of course, is what former U.S. President Johnson's Science Advisory Panel was so concerned about.) In the meantime, many countries encourage investment for food export but do not provide equal encouragement for production for the local market. Most food processors seek a local market as well as export potential.

5. Less significant as an actual deterrent, but still the element probably most discussed is the myriad of shortages in the countries of proposed operation. Tangibles like skilled and dependable manpower, material, equipment and parts; and intangibles like standards, and concepts of product integrity, even good will and an understanding of the profit system. Alone, the long list of missing resources would still constitute an irritant and continuing frustration, but in the light of frequently encountered governmental coolness to foreign investment and private enterprise, they do take on added significance.

I have dealt at length with the deterrents because I believe these must be realistically faced. Some of these deterrents are applicable even in the more developed countries. Each producer must consider, in the context of his own country, to what degree we really encourage a partnership with the private sector. Some have been particularly successful with business incentive programmes.

Jumping the income gap



When Phang Quan Kin was 13 he left school to help his father, a woodcutter in the high rain forest of central Malaysia. Te
years ago Kin came to Kuala Lumpur and found work as a labourer at the Lever Brothers factory. In that time Kin has bee
promoted from machine operator to charge hand. He has acquired new skills, tripled his income and managed to save some mone

woodcutter to factory worker

hree years ago he married Joon Kwee Thye, a seamstress, and they now have two little daughters, Ling and Chong. It sounds
ke an Asian fairy story — a poor woodcutter goes to the big city to find his fortune and ends up marrying the princess —
ut modified by the harsh reality of life in the third world. In Asia, work begins at an early age and life expectancy is low

Kin arrives home to
greeted by little Ling.
earns the equivalent of abo
$140 a month, including ov
time. His living expenses a
pared to the minimum
he is paying for his $7,0
house: a semi-detached fiv
room bungalow outside t
city.

The only luxuries that t
Phangs have bought are
ceiling fan, a small elect
refrigerator and a tiny tra
sistor radio. Anything left ov
is put aside for the children
education.

Kim is very satisfied wi
his life in Kuala Lunpur. H
would like to be a forema
but knows that he will
lucky if he makes it becaus
preference is usually given
long service.

The parents eat with the children in the evening. Mrs. Phang cooks traditional Malaysian meals of boiled rice with side dishes of beans, peppers, chicken and prawns Sometimes Kin's mother, who lives with another brother, comes over to look after the children

Neither fish nor fow

by ALI AL' AMIN MAZRUI

Eastern Africa does indeed pose the question " When is investment foreign? " A large sector of the economy is in the hands or has been in the hands of people whose attachment to an external country is little more than formal. Pre-eminent among such people are the Asians of East Africa.

The Asians are people of Indian and Pakistani origin who established homes in East Africa during the British colonial period and, in a few cases, before that. During the colonial period they were effectively excluded from agriculture and land ownership in the rural areas by the regulations affecting most parts of East Africa.

In Kenya they were excluded partly in order to safeguard the monopoly of white settlers in the Highlands, the most productive area of the country. In Uganda the Asians were excluded from agriculture in order to safeguard African interests against militant Asian speculation and commercialism. And in Tanganyika too there were some regulations which did militate against Asian participation in agriculture. Nevertheless, both in Uganda and in Tanganyika, one or two wealthy Asians did make significant inroads into agriculture and participated in the production of cash crops.

But the main area of operation for Asians in East Africa was the commercial sector, encompassing distribution, exchange and the clerical infrastructure. The Asians did penetrate the rural areas as shopkeepers and dominated much of the subsidiary trade in the big towns.

When independence came the Asians were clearly conspicuous as an entrepreneurial class. African business was still very much at its infancy, and it was all too noticeable that many of the shops and commercial houses in East Africa, and especially in Kenya and Uganda, were effectively in Asian hands. Some of these Asians did become citizens of the East African countries concerned. But most of them, when given the option between local citizenship and British citizenship on the basis of the former colonial status under Britain, chose the latter alternative. A large number of Asians were still Indian or Pakistani citizens, but the majority of those who had the choice to opt for Britain did so.

And yet many of these people had never been to Britain. In fact, when public opinion in Britain started being concerned about the influx of people of Indian origin from East Africa going to settle in the British Isles, the British government chose as its method of differentiating citizens that only those British citizens with " a substantial connection with Britain " were to be entitled to unrestricted entry. British citizens of Indian extraction, who evidently had in many cases not even been to Britain at all, were now made subject to a quota system of entry into the British Isles.

The situation then was that these Asians were in many ways much less foreign in Kenya than they would be in Britain, though they had elected to be British rather than Kenyan. The question arose whether their investment was really to be counted as a distinctive part of a British investment into the Kenyan or Ugandan economy.

Technically a case could be made for the proposition that since the investors were British citizens, what they put into the East African economies could legitimately be categorized as British investment. And yet the money that was

used for the investment had in many cases nothing whatsoever to do with Britain in its origins. Very often it was money made from the outset from the local resources, and had never really been an outgrowth of the British economy. It was certainly not a case of importing private enterprise from the British Isles to East Africa.

On the other hand the whole rationale for Asian adoption of British citizenship

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Ali al'Amin Mazrui, *a Kenyan, is Dean of the Faculty of Social Science at Makerere University College, Kampala, Uganda. His writings include* Towards a Pax Africana *and* The Anglo-African Commonwealth.

A good deal of Asian investment in East Africa comes from non-national settlers - this case study reflects a situation which is not unique

" Many of the shops and commercial houses in East Africa were in Asian hands."

y substantially in its safeguarding po-ntialities. There was a feeling, at least ntil the new Commonwealth Immigra-on Act was passed, that the British pass-ort provided ideal security for those no had to brave unstable conditions in reign lands.

Asian adoption of British citizenship East Africa was partly motivated by nsiderations of commercial as well as rsonal security. It was hoped on independence that Asian capital in East Africa especially might perhaps enjoy a little extra security if it fell under the protective umbrella of Anglo-American economic cordiality. Of course foreign enterprises could be put under state ownership. But then so could the enterprises of local citizens.

It was assumed that if Asians were East African citizens, and had their enterprises put under state ownership, there would be little protection. But the nationalization of British enterprises in East Africa could cause economic complications for the East African governments. At any rate, in the latter case there was at least the semi-safeguard of diplomatic considerations which might deter local governments from nationalizing without adequate compensation. Local citizens could however be deprived of their investments with no fear of diplomatic repercussions. So the argument went.

It would therefore seem that part of the motivation behind Asian adoption of British citizenship on attainment of independence was the aspiration to give their own capital investment in East Africa the identity and stamp of " British investment, " with all the diplomatic protection which that stamp implied.

Nor did this appear to be an unreasonable kind of expectation for a British citizen at the time to have. After all, English or Scottish businessmen working in Kenya did legitimately look to the British High Commission to protect their commercial interests should these be illegitimately compromised. And their investment is indeed normally included within that category popularly referred to as " British investment in East Africa. " But the investment of British citizens of Asian extraction had at best remained on the borderline.

The fluidity of the situation probably justified a tripartite categorization of investment in East Africa. One category might indeed be called, unambiguously, foreign investment. In this case it is assumed that the investment has a substantial connection with a foreign firm or foreign economy overseas.

The second category of investments might be designated as local non-national investment. In this case the investment might be substantially locally generated

and the investors be fully resident in the region of their operation. But the nationality of the investors is non-local and the capital might therefore, at least theoretically, be transferable to their home countries in such circumstances.

The third category of investment might be designated as local national investment. This of course would be not only locally generated, but also effectively in the hands of the countries' nationals.

But what does nationalization mean in such circumstances? In February 1967 the government of Tanzania put under state ownership banks and other industries in the country. When these takeovers in Tanzania were juxtaposed with economic policy declarations in Kenya and Uganda, interesting differences emerged. Two senses of "nationalization" were already becoming effectively operative in East Africa. One sense — that of Tanzania — was the usual western meaning. Nationalization meant putting economic resources under the control of the state.

But there was another sense of "nationalization.". This other sense meant putting economic resources under the control of nationals. In the latter sense, the resources might indeed be transferred from foreign hands to the hands of nationals — but not necessarily to the hands of the state.

A new African commercial class

President Kenyatta made a speech at the state opening of Kenya's Parliament in the same month in which Tanzania took over the banks. Mzee Kenyatta's speech was essentially a re-affirmation of a different sense of nationalization. Kenyatta's sense was that of increasing indigenous participation in the economy. The policy was designed to create an effective African commercial class which would gradually outbalance in importance the role played by non-nationals.

The first target was inevitably the gradual displacement of Asians in some of the more modest sectors of the economy. The utilization of work permits and stricter immigration controls in Kenya hit the Asian community hardest, and was one of the factors which precipitated the attempted exodus to Britain by those Asians who had relied on the presumed security of the British passport.

Uganda also set up a commission to investigate methods of increasing the African participation in the distributive and commercial sectors of the Ugandan economy. Trends in Uganda seem to be, in some respects, going in the same direction as Kenya in those economic policies affecting commercial activity.

If we relate our two senses of nationalization to the three categories of investment certain generalizations can be made. Outright foreign investment, nationalized, is likely to be nationalized in the sense of a state takeover. The resources pass from a foreign firm into the control of an African government. Nationalization in this sense was undertaken by Tanzania, the former Belgian Congo in relation to the mines, and Zambia in the same direction.

But the policies of African governments on local non-national investment have so far tended to invite a policy of nationalization in the Kenyan sense — that is to say, a policy of increasing the participation of private African enterprise in those very sectors currently controlled by non-nationals in the country. The sectors remain in private hands but the balance of control is supposed to shift from non-national local entrepreneurs to a new indigenous commercial class.

Both policies do of course have some relevance for the general climate for investment in the countries concerned. Tanzania's state takeover of some major industries in the country in February 1967 led to widespread reappraisal by foreign investors about the wisdom of continuing commercial participation in the country.

On the other hand, Kenya's policy of displacing Asians did at the time lead to a little more critical reappraisal by outright foreign investors. Outside investors sometimes regarded Tanzania's political stability as sufficiently secure to outweigh the economic risks of the socialization of private enterprise. There was a feeling that property was physically safe, and a state takeover did in any case imply compensation. But private investors outside were sometimes worried about the apparent political instability of Tanzania's neighbours. Losses incurred in political upheavals are less likely to yield compensation than a loss incurred when the state takes over an industry.

The policy of displacing the Asians in Kenya was sometimes interpreted as a sign of the government's acute wo about the effects of unemployment the country. The government was dee ed to be trying to cope with the une ployment problem by the twin proc of replacing Asians in certain cleri and semi-skilled positions and creat a rival indigenous commercial class them at the same time. There seem to have been also a fear among fore investors that these very same polici in their precipitate implication, mi cause sufficient economic dislocation provoke even further instability.

Wrong prophets, left and rig

And yet all the worst predictio about Kenya have so far remained u fulfilled. Many investors retained gr faith in Kenya. An upheaval was pected in the country on the eve independence as rival ethnic grou seemed to be about to engage in a n Congolese tribal combat. And yet, K yatta's leadership has so far succeed in averting such a disintegration. Th a Lwo/Kikuyu confrontation was predi ed by many as imminent. Again predictions have yet to be fulfill Then the country's inclination towa private enterprise as against radi socialism, coupled with a higher rate urbanization than is evident among neighbours, led to a different form speculation — that a leftwing challen to authority of a major kind was abo to break loose. Again so far Kenya continued to frustrate all alarmist prop ecies. But in a different sense, so Tanzania in her socialist commitm and her reduced reliance on external a The alarmist predictions from the ri in Tanzania's case have also remain unfulfilled.

The experiments in economic or nization which are going on in Ken Tanzania and Uganda have all the tential of imaginative interaction. this specific area of investment there the perilous and yet promising interp between outright foreign investme local non-national investment, and newly emergent indigenous enterpr And the two senses of nationalizati operating in the realm of economic p icies succeed in adding a new dimens to the interplay between ideology a economic activity in eastern Africa.

Lending foreign capital to the farmer

A private bank believes that financing of agricultural development may bring the highest returns

y FREDERIC SEEBOHM

The large seasonal demands for finance for agriculture place a strain on the banks in many developing countries. These demands can best be met by banks with large and diversified resources. In 1946, Barclays Overseas Development Corporation was formed as a subsidiary of Barclays Bank D.C.O.,* not depending on depositors for its funds and thus better able to enter the field of longer term finance than normally acceptable to commercial banks. Since early 1966, we have had an Agricultural Adviser and he now has an assistant in London and four officers working in the field.

The task of the agricultural staff is, basically, to find ways of increasing the part that the Bank and its subsidiary can play in agricultural development in the countries where we operate, in the African continent and in the Mediterranean and the Caribbean areas. These countries vary widely in respect of size both of area and population, in natural resources, conditions of climate and soil and in stages of economic development already attained.

For many years we have been interested (in the academic or non-materialist sense of the word) in the problems of the developing countries and have become convinced that, in most of these countries, long-term economic progress depends above all on priority being given to the rural sector. This predisposes us to assist, but there are obvious financial limitations as to the extent that we can concentrate on this, consistent with the obligation to pursue long-term profitability. It is perhaps worthwhile considering briefly how we reconcile this duty with our policy of taking an increasing interest (this time in the materialist sense of the word) in agricultural development.

Two aspects to the question

There are two aspects of what is really the same point. The first is what may be called the public relations side: the countries concerned are nearly all fully independent and the future of the expatriate banks depends on their convincing the political leaders, and indeed the whole population, that the banks are assisting their economic development. Agricultural development is of benefit to the widest section of the people and is really getting to the heart of the problem; therefore financing and technical assistance in this sector demonstrate the bank's willingness and ability to identify itself with the economic interests and ambitions of the whole nation. This aspect is mentioned first because it comes first in logic, but not in importance. It leads on to the second aspect: finance for agriculture may, in the short run, be a less profitable activity than some of the alternatives but no other is likely to have so great an effect in building up banking business for the future. In the long run, therefore, the financing of agricultural development may bring the highest return to the bank. It is certainly not an activity that we can neglect.

Traditionally the emphasis in financing the agricultural sector from commercial banks has been on seasonal financing. Banks depend heavily for their funds on their depositors who can withdraw their balances on demand or at short notice: prudence demands that the greater part of such funds should be employed only in financing of a short-term nature. In the developed countries seasonal financing is often largely provided direct to the farmer but in many of the countries in which we operate this is comparatively

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ederic Seebohm, *Chairman of the Board of rclays Bank D.C.O., began his career by tering Barclays Ltd. in 1929. He is actively gaged in social reform work and is, inter a, Chairman of the National Institute for cial Work Training, Governor of the Insti- te of Development Studies and of the School Oriental and African Studies.*

** Barclays Bank D.C.O. is part of the Barclays Group, being a subsidiary of Barclays Bank Limited, and operates mainly in the developing countries of Africa and the Caribbean. The parent company is in the process of absorbing Martins Bank Ltd., which will make it, probably, the fourth largest bank in the world.*

Barclays Bank D.C.O. was instrumental in forming the Intercontinental Banking Services which operates in the medium-term market and consists of Barclays Bank Limited, Lloyds Bank Limited, Barclays Bank D.C.O., Australia and New Zealand Bank Ltd., National Bank of New Zealand Limited, Bank of London and South America Ltd., and the Chartered Bank. This newly established enterprise could have a good future in arranging consortium lendings in any part of the world

rare. In some countries, particularly in the Caribbean area, there are large estates usually owned by companies, and in one or two countries there are a few large-scale, relatively wealthy farmers. Those in this category produce proper accounts and perhaps financial projections and usually are able to provide some of their own financing: furthermore, they have proper titles to their land and other valuable assets so that they can offer tangible security. In most developing countries, however, there is no proper system of land tenure and the typical farmer has only 3 or 4 acres, half or more of which is devoted to subsistence crops not sold for cash: he usually has no experience of accounting and virtually no resources of his own. Direct seasonal financing would involve sums usually not exceeding $125 — and with no proper security. For the bank's administrative costs are high and the risks great so that, even at high rates of interest, such advances become completely unremunerative. Our bank very much hopes that improved systems of land tenure and the emergence of larger scale and better trained farmers will make it possible gradually to enter this field in new areas, but it is likely to be a slow process.

Indirect means

Seasonal financing of agriculture, particularly in Africa, has therefore been provided mainly indirectly, that is to say not to the actual producer. Indirect financing comes under one of the following headings — there are many variations in detail but the different categories are usually recognizable.

Financing through cooperatives

The bank has welcomed the growth of agricultural marketing cooperatives and cooperative banks and was first assisting with the financing of cooperatives over thirty years ago. We feel that this is, potentially, the most valuable form of assistance to the small farmer and will encourage the spirit of self-help which is so necessary to get basic agricultural development on the move. But progress with this method has been disappointing: this is most of all due to the grave shortage at all levels of trained officers in the cooperative movement. In the absence of competent management a cooperative is not a good risk and the bank must seek security which is often not available.

However, in some places the cooperatives have thrived and built up financial reserves and fixed assets. In others the government has been willing to offer its guarantee to encourage the movement. Finally, where the produce is sold at a fixed price solely through a marketing board it may be possible for the bank to obtain crop hypothecation and irrevocable instructions for all sales proceeds to be paid to the bank.

Financing through marketing boards

With their statutory monopoly these boards have enormous, though usually short lived, seasonal peak demands to enable them to purchase the crops at harvest time. The banks have often worked on a consortium basis owing to the sheer size of the operation; even so local resources may often need to be supplemented from London and now, more frequently, by the Central Bank arranging rediscounting facilities. Important though this financing is, we feel that a detailed account of the procedure, which sometimes involves several stages of financing as crops are harvested, bought by agents, re-sold to the Board and sold to exporters or local and foreign purchasers, is not required here.

Financing of commercial buyers

These are either large expatriate companies or produce merchants, both expatriate and indigenous. Where marketing boards do not exist, these are still important. In prewar times large companies performed to a large extent the work now done by marketing boards, but they have now largely withdrawn. The indigenous produce buyer of the lesser crops has emerged, particularly in Nigeria; the bank is keen to finance this category but the buyer is often inexperienced in overseas markets and unable to provide security. There is little doubt that this category will grow in importance, particularly where the government or parastatal body gives encouragement in the shape of a guarantee to the bank.

Financing of processors

Where processing is done locally, as with cotton, sugar, coffee and tea, there is likely to be an individual, a company or a cooperative with tangible assets. These are often substantial recipients of bank finance to enable them to purch the crops from the farmer. Provi that there is good management, seems a particularly suitable field for cooperative formed by producers. centrally situated cotton ginnery, instance, can supervise the planti harvesting and marketing of the cr of several hundred small farmers in area and assist them in financing throu all the stages; the financial strain often be alleviated by a system of p payment on delivery to the ginnery, w the balance paid to the farmer o when the ginned cotton has been so The bank can obtain security for advances and keep administrative co down to a reasonable level.

Longer term financing

The bank, in common with oth commercial banks, until a few years a regarded longer term lending as outsi its normal business.

The establishment of the Barcla subsidiary, Barclays Overseas Develo ment Corporation, in 1946 was the fi organized attempt to break into this fie B.O.D.C. as a commercial financial co poration requires to revolve its fun over a period of a few years. It therefore limited to medium rather th long-term financing and, as a guid would regard about 15 years as a ma mum, normally with regular payme of instalments over the period. It e pects a properly drawn up project be presented for consideration, secur to be offered and a high degree of c tainty of repayment on due dates to present. These conditions are of cou more easily met by the industrial a commercial sectors of the economy th the agricultural — but attempts ha been made to rectify this position. O of the main tasks of our agricultu officers is to assist with the proper pr sentation of projects in conjunction wi branch managers of the bank. B.O.D. keeps its administrative costs low by t use of the bank's network of branch and by assisting in the finance of larg projects in partnership with other len ing institutions, indigenous, national international. Projects of $12,500 even less have also been financed an particularly for agriculture, this has be one of the Corporation's most valuab contributions to the development of t poorer countries, as there are few oth

sources of financing for smaller scale projects.

B.O.D.C.'s loans to agriculture have, however, been small in relation to the total for the reasons mentioned. The amount outstanding in recent years has averaged over $5 million out of a total of about $37 million. We hope to see a gradual increase in the figure now that our Agricultural Department is getting into full stride, but this will probably only be in step with parallel increases in financing from the bank.

". . .we must first convince the people that the banks are assisting their economic development. . ."

Bank

We have been able to enter into longer term lending in recent years, not just to meet increased international competition, but because the growing size and diversification of the bank have brought this within the limits of prudence. Not only have we greatly increased our reserves but we have also been part of a growing group of banks. We still feel that two limitations must be placed on the longer term financing we provide: (*a*) it should not become too heavy a proportion of the total and should still be well spread in type and area of the business; (*b*) some degree of liquidity should be preserved in these advances, by taking realizable security or by having the agreement of governments or other institutions to take over the advances in need or provide rediscounting facilities of some kind.

Private enterprise

Once again the fact has to be faced that there are special difficulties in applying this policy to agriculture. As shown above in respect of seasonal financing, the number of suitable individual borrowers is very small. We have been able to increase the numbers eligible in some areas and we hope gradually to extend this to all other areas. With proper supervision the medium-sized farmer, with as little as 100 acres, can become an eligible borrower under favourable conditions. Much though we may wish to tackle directly the problem of finance for the peasant farmer, it is still a question of helping those who have already helped themselves. Countries whose social and political policies do not permit the emergence of farming entrepreneurs, with good titles to their land, will find commercial banking less effectively and dynamically involved.

Lending to institutions

Where the commercial farmer has not emerged, institutions are required to initiate agricultural development. These are usually parastatal bodies either for general development or to administer specific projects. The bank has assisted in the formation and financing of a number of these institutions of both types. A typical instance is a fairly substantial eight-year loan, with a four-year grace period, to the Agricultural Development Corporation of Kenya for the production of improved dairy in-calf heifers for sale. An important aspect is that disbursement and repayment is in local currency. This is in many cases easier for the bank to provide, while from the recipient's point of view it is useful as it solves the problem of meeting local costs where aid has provided only the foreign exchange costs (as seems unfortunately to be the universal rule).

The refinancing process

A second promising field is participation in World Bank projects, with the similar aim of meeting local costs. The commercial banks act as principal lenders, but they are able to refinance a portion of their lendings with the local Central Bank which in its turn is able to refund itself by drawing on a World Bank loan. The rate of refinance charged to the banks varies upward according to the proportion of the risk off-loaded by the banks, thus resulting in greater profits to them as their own contribution increases. On the other hand the banks are more willing to take on longer term finance in this way since they can readily convert it into liquid assets in case of need. Existing schemes in Latin America have indicated the pattern, but much patience, negotiation and hard work is still required before schemes of this nature can come to fruition. However, the way now seems clear for a livestock development project in Uganda on this basis.

The bank has thus played an important role in the seasonal financing of agriculture for many years, but the financing of longer term agricultural development must still be regarded as largely in the experimental or pioneer stage. We are convinced, however, that there will be a steady increase in the part which the bank plays in this task. ■

Improving the climate

A four-point prescription for resolving the conflicts of interest between foreign investors and third world countries

by PAUL STREETEN

The role of private investment in the process of development needs rethinking in the light of fundamental changes in the world economy. Much of our present thinking, and many of our institutions, are still dominated by the experience and the doctrines of the 19th century, and are therefore ill-adapted to the altogether different circumstances and needs of the second half of the twentieth.

Foreign private enterprise has an important part to play in assisting the progress of the developing countries. At the same time, a number of obstacles stand in the way of greater participation of overseas private investment in the development process. New thinking and new institutions can contribute to overcoming these obstacles.

Obstacles which are partly economic — arising from the difficulties of operating in countries with shortages of skilled manpower, foreign exchange and basic utilities — and partly political. The latter include the sometimes-ambivalent attitudes of the governments of developing countries and the resulting political risks faced by private enterprise.

There are a number of features which distinguish modern private foreign investment from that in the last century.

Firstly, in the 19th century 70% of long-term world foreign investment took the form of bonds and only 30% that of equity: today bond investment is very small and over 90% is in equity, largely direct investments.

Secondly, this implies that the rates of return and the services rendered have changed. Whereas equity investment carries a yield of 15 to 25% before tax, and 10 to 15% after tax, fixed interest investment yields only 6 to 7%, although rates have been rising. The higher returns on equity investment reflect partly remuneration for technical and managerial know-how, partly a premium on various kinds of risk and partly monopoly power. In so far as the rate of return includes a remuneration for acquiring know-how, this would have to be added to the costs of fixed interest investment if such know-how is not available at home. Returns due to political risks and monopoly power do not reflect pa ments for services received by the borrowing country.

The third difference is that equity investment in the 19 century carried the risks of cyclical fluctuations; in bad yea no dividends would be paid out. Such fluctuations are le important today, in spite of continued fluctuations in expo earnings, and there is, therefore, less justification for a rewa for this kind of risk-bearing. Fixed interest borrowing therefore often a cheaper way of achieving the same purpo

Fourthly, in the 19th century, the transfer of capital w accompanied by the migration of skilled people in whom ap tudes and attitudes geared to development were incorporate Today, traditional attitudes have to be transformed and ski have to be created.

Finally, as a result of the more rapid spread of knov edge, certain, although by no means all, types of technologic knowledge are nowadays more widespread and standardiz than they were in the 19th century. It is sometimes cheap to hire foreign engineers and to borrow capital at fixed inter rates than to encourage equity investment. In those are where hired skills, plus fixed interest borrowing, can achie the same results more cheaply than foreign equity investme the latter puts an excess burden on the host country. The are other industries in which technical and managerial kno how is not so readily available and where high returns a justified. In particular, the most difficult problem frequen is to sniff out profitable opportunities rather than, havi selected projects, to execute and run them. This sniffing-o can be done by foreign capital which acquires in return t right to exploit fully these opportunities. But there are ma other arrangements which may serve the same purpose, so of which impose a smaller burden on the host country. would, for instance, be possible to offer a managem contract to a foreign investor who may also be permitted hold a substantial minority of shares. The foreign inves would construct and manage the plant and would receive management fee. This fee can take the form of a percenta both of profits and of foreign exchange savings realiz At the same time, the managing firm may be expected offer a credit at a fixed rate of interest to the local fi

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This credit should cover either the foreign exchange costs or a certain proportion of the total investment costs of the project. The duration of the loan is the same as the duration of the management contract.

Private overseas investment since about 1950 has played a considerably smaller part in the transfer of resources to underdeveloped countries than official aid. Between 1956 and 1966 the net flow of private (including portfolio) investment and private export credits to poor countries fluctuated round an annual rate of about $3,000 million, while private investment by rich countries in rich countries was considerably larger and increased substantially.

Private investment in poor countries reached a peak of $4,329 million in 1967 to which it rose from a trough of $2,544 million in 1963. The average annual flow is about half that of official net Development Assistance Commission (OECD) disbursements, but it is obviously less easily controlled or predictable. The British contribution to this fluctuated between $310 million in 1963 and $726 million in 1957; in 1966 it was $470 million.

Private overseas investment, with all its merits, has never achieved a large and sustained transfer of resources to developing countries. Yet this is the need today. Only if the percentage rate of growth of foreign capital is higher than the rate of return on old capital is there a current net addition to the foreign exchange resources available for development.

It is sometimes said that additional new investment and the retention of current profits in the host country can indefinitely offset, and more than offset, the return flow of profits and dividends on old capital and of capital repatriation. But if the rate of return on foreign capital exceeds the rate of growth of national income — a quite realistic assumption, because the former is likely to be at least 10% and the latter at most 5% — the rate of growth of foreign capital must be higher than that of national income.

This implies, assuming a constant ratio between capital and output for foreign and for domestic capital, that foreign capital ownership grows at a faster rate than domestic capital and, therefore, an ever-increasing proportion of the domestic capital stock will be owned by foreigners.

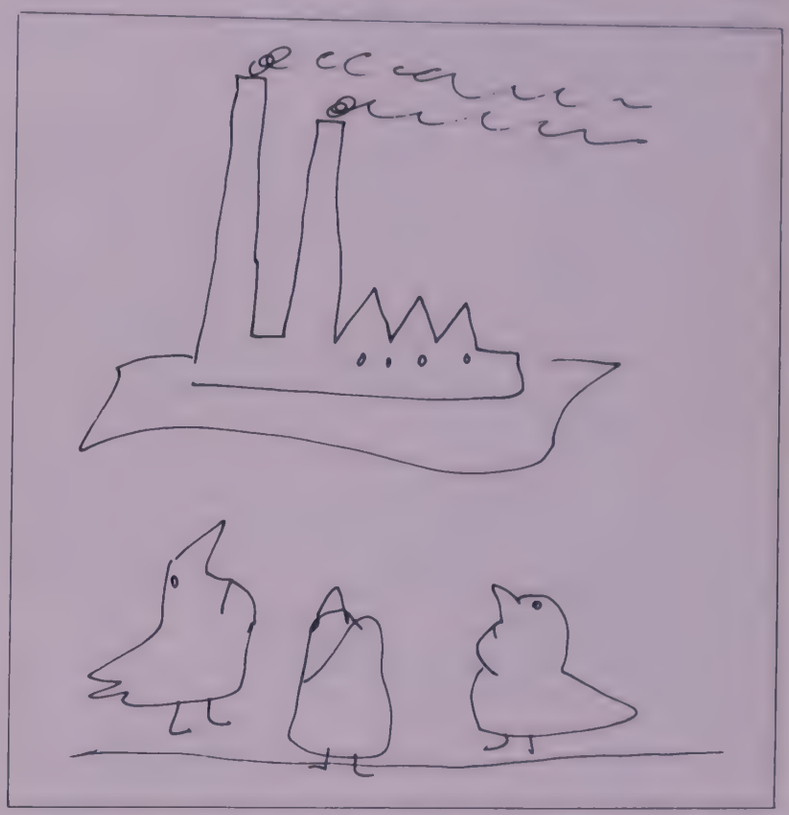
This is particularly serious if, initially, little locally owned capital exists, as in many African countries. Even if such alienation of the capital stock were politically acceptable, the process must come to an end when all capital is owned by foreigners, beyond which further postponement of repatriation and remittances will not be possible.

It also follows that remittances are, sooner or later, likely to grow faster than export earnings since these are not likely to grow much faster than income, and to absorb a growing proportion of foreign exchange earnings. Even with rising investments there is going to be a growing burden on the balance of payments of the host country.

Furthermore, we must make allowance for the fact that, with population growth of 2 to 3% per annum, income per head rises less rapidly than total income. If the rate of return on foreign capital exceeds the rate of growth of income per head, capital service charges per head of the population must rise and the surplus extracted to meet these charges will increase. For these reasons, private investment is not likely to make a sustained and substantial net contribution to the transfer of foreign exchange resources.

But even during the period when a net inflow of foreign exchange is possible, because the rate of growth of foreign capital exceeds the rate of return on foreign capital, less developed countries are faced with a dilemma: either they permit or even encourage this growth of foreign capital, in which case they will be faced with growing foreign ownership of their capital stock. Or else they limit this process of alienation, in which case a growing proportion of their export earnings will be mortgaged to remitting profits and repatriating capital.

Whereas growth in the more advanced countries stimulated expansion in underdeveloped countries in the 19th century, today such growth has either very much smaller effects or is actually detrimental to development. In addition, what is regarded as an acceptable rate of growth in underdeveloped



"There has been a growing disparity between development aspirations and trade opportunities."

countries was previously substantially less than it is today. As a result of this, there has been a growing disparity between development aspirations and trade opportunities. These changes have reduced the attraction of foreign investment to the host country, particularly if its domestic market is small, slowly growing and uncertain, and have increased the difficulty of remitting profits out of export earnings.

Some of these reasons for the reduced benefits to be derived from international trade are economic, others political. Thus, higher protection in advanced countries is clearly a political obstacle. Equally, the discrimination which many underdeveloped countries practise against agricultural production and exports (taxation and other restrictions) and the high agricultural costs to which their industrial protection leads reduce both means and incentives to innovate in their agricultural and manufactured exports.

Inability to earn profits and repay debts has, in the past, led to bankruptcies which relieve debtor countries of the need to repay capital or remit profits: the effective rate of return has therefore always been much smaller than would appear on paper. Today, bankruptcies are much rarer and default is considered a much more serious matter. This implies that softer terms should be recognized in the terms of agreements.

What's wrong with foreign companies

Foreign companies are sometimes accused of sacrificing the national development of the country to their desire for profits. It would be both unreasonable and possibly undesirable to expect foreign companies to act altruistically in promoting local development. Within the constraints set by competition, legislation, morality and public opinion, there is a presumption that they are best employed in seeking profits, as long as they take a long-term view, not giving excessive weight to quick profits at the expense of future profits and as long as they assess correctly the constraints set by political action and public opinion.

More serious is the charge that the local company sacrifices its own profits to the interests of the parent company or sister companies in an advanced industrial country and that this, rather than any lack of nationalism, charity or altruism, damages local development.

Such restrictions on local profit maximization can have different reasons. The company may charge higher prices for its products in order to prevent the elimination of inefficient sister or parent companies in the investing country. But the reverse may also be true: the parent company pricing its products so as to keep an inefficient subsidiary in business. In the former case the high prices may lead to faster innovation in synthetic substitutes in which the parent company may be engaged. The problem here is not monopoly pricing by the subsidiary, for price reductions would increase local profits, but the foreign locus of ownership and control.

Profits may be minimized rather than maximized by underpricing output and overpricing inputs, if by this device tax liabilities can be shifted from a high-tax country to a low-tax country or losses can be set off against highly taxed gains. Another cause of trouble is to be found in the high wages and fringe benefits which the foreign company can offer to local workers and which do not reflect the costs of alternative uses of the labour forgone. While this policy ensures that some of the profits of foreign enterprise are retained by citizens of the host country, it can play havoc with the wage structure in the rest of the economy, aggravate social inequality, perpetuate unemployment and encourage the wasteful use of capital.

These considerations, quite apart from political fears of domination or foreign influence, suggest that a framework should be created which would reduce the costs of foreign investment to the host country without reducing its benefits.

A high share of equity investment imposes two kinds of burden on the host country. Firstly, a high share of the increase in production which the investment makes possible must return to the foreign investor in the form of profits. Secondly, these resources must be transferred through additional foreign exchange earnings. In view of the above-mentioned limitations of contemporary international trad this secondary transfer burden, superimposed on the first, bound to be heavy.

Political risks, such as expropriation without adequa compensation, restrictions on repatriation of profits a capital, or devaluation, are often cited as factors whi make it necessary to earn high rates of profit to compens for these risks. The high rates earned then cause suspici and hostility in the host country, which feels that the fi is taking out much more than it puts in, and tend to lead those dreaded events, which the high profits seek to compens for. This leads to the demand for even higher profits a the vicious spiral is given another twist. High profits, requ ed because of risks, also impose a heavy balance payments burden, tending to lead to restrictions on remittanc and repatriation, and once again strengthen the demand f higher profits to compensate for the risk of such restrictio

Mutual gains could be derived from measures whi lower these risks, lighten the balance of payments burde reduce the rate of profits required by the company, and disp fear and suspicion. Private investment in uncertain conditio is not a zero-sum game and both investor and host count can gain from such mutually agreed 'disarmament.'

Advantages of private investment

Private investment is frequently lumped together wi official aid as a quantum with which to fill the 'resour gap,' and with official aid and receipts from visible a invisible trade, as a quantum with which to fill the 'forei exchange gap.'

It has been argued above that private investment cann be expected to make a substantial contribution over sustained period of time to filling the foreign exchange ga But while the additions to the *volume* of total available forei exchange may not be substantial, private investment m provide capital in a particularly productive form, so that t *efficiency* of the resources transferred is high.

The particular contribution of private investment may not in the transfer of foreign exchange so much as in helpi to lay the foundations for further growth in the economy a in strengthening the base from which domestic savings a foreign exchange are generated. In particular, private overs investment can bestow substantial and unique benefits the host country where domestic management skills a entrepreneurship are embryonic and there is no other w of organizing large-scale manufacturing industry.

Its merit then lies not so much in contributing to fill the foreign exchange gap, or even the savings gap, as in following:

First, it helps in the transfer of technology;

Second, it provides management and training of lo managers;

Third, it can help in the training of workers and creation of skills in administration, marketing and other bu ness techniques;

Fourth, in appropriate forms and with appropriate sa guards, it can contribute to the growth of local enterp neurship;

Fifth, it helps in establishing contacts with overseas bar

capital markets, markets for products, sales organizations and other institutions and it opens a previously closed society to worldwide influences;

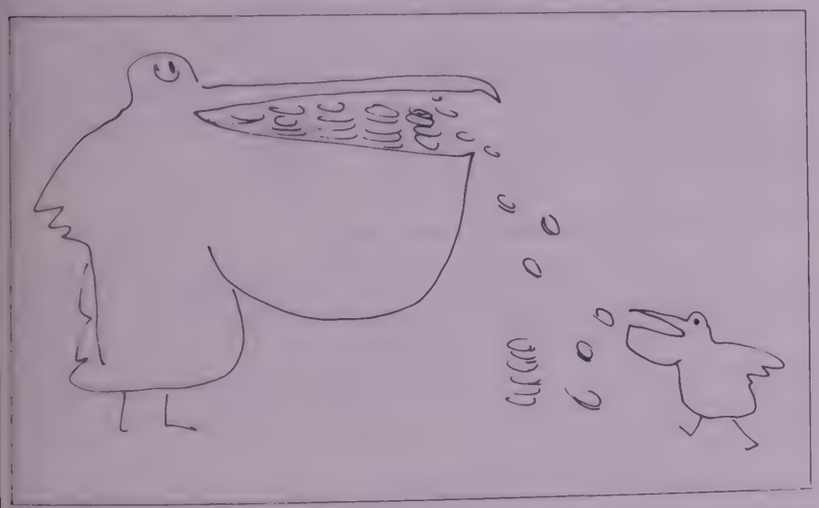
Sixth, it may also contribute indirectly to filling the savings and the foreign exchange gaps by contributing to tax revenue;

Seventh, it may contribute to creating, directly and indirectly, employment opportunities.

While all these contributions are possibilities rather than certainties — since under each heading negative as well as positive results can be listed — they point the way to solutions which will maximize the net gains.

The organizational structure and motivation of the international corporation — with subsidiaries and branches in many countries, which can, as we have seen, militate against the interests of development in a particular country — are, for the same reason, capable of responding more effectively to technological, political and economic changes in switching to new products, closing down inefficient lines, cutting costs by shifting to new sources of supply, etc.

The pressure for greater local participation in ownership and control may impede or prevent these operations in much the same way in which nationalism and autarchy prevent the most efficient international specialization. Adam Smith's invisible hand has a strong cosmopolitan bias. It ignores nationalistic aims and, in seeking profits wherever they



" It would be both unreasonable and possibly undesirable to expect foreign companies to act altruistically in promoting local development. "

can be made, transcends national boundaries. Whatever may be true of the *national* corporation, what is good for General Motors is *not* always good for America. It is this dilemma between, on the one hand, international allocation in the service of efficiency and, on the other, greater local participation and commitment which must be resolved.

Even in sectors and in industries in which foreign equity investment is the best form of promoting development, political considerations suggest that partnerships and joint ventures — in which local capital and know-how participate — are often preferable. A private firm could establish a joint enterprise with a local government or a government agency, such as a local development corporation. The foreign firm should put up not more than 49% of the capital, but enough to benefit if the enterprise succeeds and suffer if it fails. It should have a substantial minority interest, while the local government or agency has the dominant interest.

Such a holding would often be sufficient to secure a decisive role in management. But it might be possible to arrange in special circumstances that, in the initial phase, the foreign investor should hold a higher percentage of the equity, as long as the arrangement for eventual transfer to local ownership is clearly stated. The foreign firm might also provide some of the money on a fixed interest basis, or in the form of preference shares.

The equity interest of the foreign firm would be bought out by the local government at the end of a pre-arranged period. This period could be ten years, with provision each year after, say, seven years to extend for a further five years up to, say, 15 years — or longer in the case of plantation enterprises. Other forms of rolling extensions could be devised, such as periodic reviews with stated periods of extension. Alternatively, the period might be longer, but there could be options at fixed points when either the local government can buy out or the firm can sell out; an evaluation procedure to determine the price would have to be agreed.

Managerial and technical staff would, initially, be provided almost exclusively by the foreign firm, perhaps under a management contract, but with the obligation to train local replacements within a specified period before buy-out. The rate of replacement could not be specified contractually, but the local government would be able to use its representation on the board to ensure that it went forward at a satisfactory pace.

Housing and other community services should be provided by the local government statutory body set up for the purpose. In view of the relatively short period of ownership participation, the foreign firm's capital should be concentrated on directly productive activities.

Official aid may provide for the finance participation of the local government. It might be possible to provide a long-term loan on soft terms to enable a host government to participate in a venture. No subsidy to a particular private firm would be involved, for the government's terms of on-lending could be commercial. Only the secondary foreign exchange burden would be lightened.

Governments can also support such joint ventures with buying-out options, either by investment guarantees or by including a clause in the contract of the loan that, in case of expropriation without proper compensation, the whole outstanding loan would fall due for repayment immediately. The force of such a clause would lie in the fear of loss of credit standing if default occurred.

Arguments against such proposals are based partly on the need to repatriate capital paid to buy out a firm and the consequential strain on the host country's balance of payments, and partly on the fear that limited participation is bound to reduce the involvement of the foreign firm in the host country and to reinforce its enclave nature. The reply to both points is that companies should be encouraged to reinvest their funds in new ventures in the same country. Where this is impossible, the costs of repatriation and short-term involvement would have to be compared with the benefits of increased local participation.

Arrangements of the kind sketched out above would attract foreign capital and know-how to the activities where

they are most useful, but would release them, when the host government buys out the firm, for new ventures elsewhere. Thus, good use would be made of the finance and experience of foreign companies by keeping them in a revolving fund. Teams could be kept working together and political friction and transfer burdens would be minimized.

The climate for international investment, and for new forms of joint ventures, would be greatly improved if a set of rules for the remittance of profits, capital and capital gains could be agreed upon and obeyed. It is important that profits earned by foreign capital should be allowed to be remitted home. Restrictions, except those imposed temporarily in emergencies, would only discourage the future flow of investment, and are as much against the interests of the investor as they are against those of the host country.

But if the foreign firm borrows local capital, which it can often do very cheaply in view of its good credit standing, profits earned on this local capital need not enjoy the same freedom. The same rules should apply to these profits as those which apply to local firms.

While it may be sensible to aim at a certain proportion of equity to fixed interest investment for foreign capital in an underdeveloped economy as a whole, the proportions of specific sectors and firms may, of course, vary widely from the countrywide average. Some sectors, like transport and power, can be wholly financed on a fixed interest basis. Others, where entrepreneurial initiative is important, may be financed wholly by direct equity investment, while others, again, may show a variety of gearing ratios of equity to bond capital. Again, a variety of arrangements can be made for the transfer and adaptation of know-how. Individuals can be hired, management contracts can be concluded and participation in profits can be arranged. It is the purpose of such arrangements to minimize both the cost to the host country of the transfer of capital and know-how, and political frictions, while safeguarding the interests of those who are willing to conduct this transfer.

If our main concern is the social and economic development of less developed countries, the contribution of private overseas investment must be assessed in the light of a variety of methods of mobilizing resources, skills and know-how. Our task is to explore the most effective and the cheapest way of attracting foreign resources, skills and knowledge and the best way of combining them, and to examine new institutions, arrangements, and forms of contract.

The objectives of the new arrangements are:

First, to reduce the political tensions that arise from large foreign-owned enclaves in less developed countries and the fears of expropriation which deter foreign enterprise;

Second, to establish a framework which would change the policies of foreign companies so that they do not necessarily subordinate the policies of the local companies to the interests of the parent companies;

Third, to induce spread effects, so that the beneficial activities of the foreign companies spill over into the less dynamic sectors of the rest of the economy;

Fourth, to set free, after a period, the scarce foreign capital and skills so that these can be re-employed in pioneering new ventures rather than continuing to be employed in existing activities. ■

...Zero hour

(Continued from P. 23)

of capital for the developing nations. This is becoming o more shibboleth based on rigid prejudice, with little just cation in the realities of the situation. It is possible insist, though not without difficulty, that no special reser should be deliberately created for the purpose of developme albeit even this is a doubtful proposition. But it is l easy to understand why, if reserves are created by a consens that there is need for more international liquidity, so modest part of these reserves could not be used for develo ment purposes.

Is it the fear of world inflation by allocation of a f hundreds of million dollars a year, in a world in which t GNP of the developed nations exceeds $1,650 thousa million, and the anticipated 3% growth rate in reserves, d to special drawing rights, should aggregate about $2 thousa million of new reserves a year? That would be a thesis ha to uphold. Is it because the new liquidity has to be add to where there are already big reserves, to supplement the The dogma of complete separation of development from t creation of new financial liquidity cannot be rationa explained.

A group of experts appointed by UNCTAD in 1965 the highest possible level rejected the thesis and strong recommended allocation of a part of this new liquidity f development purposes, with a view to augmenting the flo of development finance to developing nations. There is rational or reasonable argument, but only prejudice, agai using part of these newly created liquidity reserves for t purpose.

The choices are unmistakable

The raising of capital on the capital markets throu interest subsidy and guarantee by the developed nations, I had suggested in my plan, together with use of new liquid reserves for development and, at least, a maintenance of t present grants-in-aid, could radically change the pres world situation.

Wealth cannot be spectacularly and swiftly expanded the highly developed nations, where full employment already maintained and further increment of the GNP predicated on technological development. But there is colossal reserve of unemployed and underemployed m power in the developing nations, with low productivity a an excessive proportion of agricultural labour yielding relatively low output.

Added capacity there, through adequate import capital, would make available new forces constituting economic revolution, with the ensuing wealth seeping thro every part of the world's population and markedly enrich even the developed nations.

Such a vision requires a statesmanlike and economic sound approach. The choices are unmistakable: on the hand, famine, political instability, and perhaps war; on other, eradication of poverty, unparalleled affluence prosperity for humanity as a whole.

What is needed is imagination and a political wil respond to the challenge inspired by the spirit which t the world after the second world war.

in the field

NIGERIA

■ *Kainji dam officially opened*

The newly completed Kainji dam across the Niger river will provide power for agricultural and industrial development, as well as controlled river navigation, the opening up of irrigated agriculture and the possibility of commercial fisheries.

The dam — which cost some $250 million to build and which will generate some 960 megawatts — was officially opened in mid-February. Financing came from Canada, Netherlands, United Kingdom, United States, the World Bank and Nigeria itself.

The World Bank loan and IDA loans will account for nearly 39% of the total cost of the programme with 16% coming from the farmers and the rest from government funds.

MADAGASCAR

■ *Capitalizing on grassland and beef cattle*

The first stage of a long-term livestock development programme has been launched in Madagascar with the help of a $2.8 million loan from the World Bank, with a further $1.4 million coming from government funds.

Grasslands cover nearly two thirds of the land area and there are some 10 million head of beef cattle in the country. However, until now there has been little attempt to launch a modern beef cattle industry.

This first stage will consist of six 62,000-acre beef cattle ranches, four to be established in a thinly populated area close to Tananarive.

Less than 2% of Madagascar's most important resource — cattle — is processed for market.

TANZANIA

■ *New ways of controlling the Quelea bird*

Nearly 1,000 million **Quelea** birds are destroyed each year in Africa by the bombing and poison-spraying of their nightly roosting sites. However this costly and hazardous operation often brings about only temporary, local reductions in the numbers of this pest which causes such enormous grain losses.

A team of three scientists from the U.K. Anti-Locust Research Centre have started a three-year study of the biology and movements of the **Quelea** population in Kenya, Tanzania and Uganda with the hope of developing more economic and effective control methods. The team is working from the Tropical Pesticides Research Institute at Arusha.

SENEGAL

■ *New lease of life for groundnut and millet*

Groundnuts are Senegal's one important cash crop and the main source of foreign exchange, accounting for nearly two thirds of all exports.

A long-term programme to increase groundnut production — and also production of millet, one of the country's staple crops — is being continued through a loan of $9.5 million from the World Bank and its affiliate, the International Development Association (IDA).

This programme was started five years ago with financial assistance from the European Economic Community as partial compensation for the progressive elimination of preferential arrangements for marketing Senegal's groundnut crop in France.

ETHIOPIA

■ *Mechanizing the dhow*

During the last two years 12 motorized fishing dhows at work in the Red Sea accounted for 35% of the total catch coming from some 160 dhows fishing the area.

The superiority of the motorized version has spurred interest in a two-year FFHC project which is providing engines, spare parts and fishing gear for dhow fishermen. Financing is being met by the Ethiopian Government and by Christian Aid, a private

philanthropic organization. Some 25 dhows have already been fitted with 10-64 HP engines.

TUNISIA

■ *Change from subsistence farming*

A large project to reclaim some 4 million acres of arid land in Tunisia is being supported by $26.8 million worth of food aid from the World Food Programme (WFP).

Some 40,000 members of 300 cooperatives in central and southern Tunisia are to plant fruit trees, establish grazing areas and help to improve animal husbandry in an attempt to break out of subsistence farming into commercial agriculture.

ROMANIA

■ *Irrigation scheme acts as arrowhead*

A pilot irrigation scheme covering some 9,000 acres along the Danube, 40 miles south of Bucharest, is to serve as a guide to large-scale irrigation of some 2.5 million acres of the Danube plains over the next ten years.

The irrigation scheme, being carried out as a UNDP project, has also attracted interest in Bulgaria, Hungary and Yugoslavia. The experience gained so far has already been put into practice in a land reclamation and development project in Yugoslavia's Sana river basin.

INDIA

■ *$125 million for development*

India's development programme is being helped by a credit of $125 million from the International Development Association (IDA). This credit will provide foreign exchange to cover imported production materials including agricultural tractors, machine tools, fertilizers, pesticides and similar products. The credit is for 50 years with 10 years of grace

GABON

■ *Logging roads needed*

The greater part of Gabon's land area is covered with tropical forest, and the forest industry accounts for 40% of the country's export earnings. Timber production has dropped off in recent years, however, largely because of transportation problems: the coastal zone has been logged out and logging companies are now moving away from the coast into areas which have few roads.

A new World Bank loan of $6 million will pay for two roads which will open up an area of more than a million acres for logging operations.

Two fifths of Gabon's foreign earnings come from forestry. The World Bank has recently granted a loan for two new logging roads

ISRAEL

■ *There's no place like home*

Fish like to congregate around solid objects, according to Dr. O.H. Oren of the Sea Fisheries Research Station, in Haifa. Japanese fishermen take advantage of this hypnotic allure — known as **thigmotropism** — by using junk, sunken boats and concrete blocks to create successful fish colonies. Another method consists of blasting underwater reefs to provide nooks and crannies for algae, sponges and other underwater life, thus attracting lobsters and other valuable invertebrates.

WFP aids drought-stricken countries

Emergency food supplies are being sent by the World Food Programme (WFP) to several countries suffering from severe drought.

. . .Mauritania has lost one half of this year's cereal crop through drought. Some 500,000 worth of food is being sent to help feed some 300,000 persons.

. . .Nearly half of the Gambia's rice crop has also been lost through drought. The WFP is sending emergency shipments of sorghum to help tide over this area of the country until the new crop comes in.

. . .Food for 78,000 persons for three months is being sent to drought victims in Botswana. Last March $1 million worth of food aid was sent to Botswana because of drought conditions.

. . .A further $1.6 million in food aid has been sent to drought victims in the Dominican Republic following a report that heavy rains had followed a prolonged drought, washing away recently planted crops.

Other countries are following suit and creating artificial reefs to promote conservation and improve fishing.

SYRIA

■ *Reclaiming the Ghab*

The Ghab Valley is being reclaimed with the help of a huge $38,000 Dutch drainage machine which can dig a 6-foot trench in seconds and lays drains at the rate of 12 feet a minute: the only one of its type in the Near East.

The Ghab's 180,000 acres are being reclaimed and the area changed from a desolate stagnant marshy lake into a fertile highly productive plain. In 1952 a natural barrage of earth and rocks was blown up allowing flooding from the Orontes river to subside. Drainage work was started and two big dams were constructed upstream.

Drainage and irrigation work — carried out by a joint FAO/Syrian team as part of a UNDP project — has already made excellent progress. The 'lake' has disappeared and some 50,000 resettled farmers are now growing cotton, wheat, maize and barley. Tractors and other agricultural machinery are at work in the fields and experimental crop trials are being carried out in pilot areas.

CEYLON

■ *Malaria on the rise*

The global strategy of malaria eradication suffered several reverses over the past year, according to WHO.

In Ceylon there were extensive epidemics with over a million cases in 1968, while in India it became necessary to recommence spraying operations in the northern and central parts of the country. These reverses were attributed by members of the WHO Executive Board to financial and administrative problems, in part, and to the inadequacies of the general health services in fulfilling their role in malaria eradication.

Indian Tangle

A study by
R. O. Whyte

The author has an impressive background of knowledge and experience in problems of scientific management of land in its widest ecological context. Having worked for a long period with FAO, this experience is global, but a considerable part of it has been concentrated in Asia, particularly India. Consequently, he is uniquely qualified to undertake an analysis of the interrelationships between land, livestock and the demands of human nutrition in India.

These relationships are complex, always and everywhere. In India the tangle is worse than anywhere else, since the land has continued to be exploited since the age-old past with little change in methods for the requirements of a steadily increasing number of people and cattle. As is pointed out, India's current task is to maintain no less than one sixth of the world's human population and one fourth of the world's cattle population. The economic facet of this tangle is the progressive diminution and scattering of farming units, low income returns and the lack of scope for savings and investment in improvements. Heavy incrustations of obsolete social taboos and attitudes make the problem more intractable. The powers that be certainly know better; but the fear of alienating the politically enfranchised mass of peasantry inhibits bold action.

Thus the crisis deepens and there is every reason to share the author's scepticism about reassuring forecasts of agricultural plenitude from official quarters. In these circumstances, objective presentations of the problem by experts of Whyte's eminence and reputation have a salutary function to perform. Specialists in land management and animal husbandry may discover no startling revelation in this publication, but will find in it a ready and handy assemblage of much up-to-date information and references. Its greater use will be to politicians and administrators engaged in the shaping of public policy in this sphere.

Whyte's analysis puts the problem in a wide perspective. It is necessary to view it in this light, because the situation has deteriorated too far to yield to short-term and piece-meal solutions. People in responsible positions need to be made clearly aware of all factors entering into the problem, not only the immediate, but also the relatively more remote, which tightening constraints have brought absolutely closer. Even the few policy makers who know may find it more politic to attribute needed unpopular courses to the findings of eminent foreigners rather than themselves.

Resources for development are only too scarce and if their further waste is to be avoided, some of Whyte's well-founded observations should be immediately taken into account in future planning. It is argued, for instance, that the scope for dairy development is limited in many parts of India and it would be better in such areas to stress poultry production as an alternative source of animal protein. There may be need to give clearer recognition to the buffalo as a source of milk: "India will never be able to feed enough cows to produce enough low-fat milk to meet the national demand" (page 222).

This reviewer found the author weakest in his treatment of what he calls the international politics of nutrition. It is not only utopian to envisage the introduction for a global system of rationing of dairy products and similar foods (page 257): such assurance, even if feasible, would spell a serious threat to the incentive of self-help in countries which are presently deficient. It is unrealistic to expect that an international community can either establish the means of providing all needed supplies of skim milk powder on a regular basis for an indefinite period of time (page 183), or that an international food authority will have the power to ordain that the food supplies in excess of nutritional needs in developed countries shall be exported to specified places at prices that the receiving countries can afford (page 258).

The rational course for such an authority would be to apply such excess availabilities or excess potential for production, not for simple consumer use in needy countries, but as seed corn for increasing their own productive powers for good; and such application can be only by consent and not by fiat. Indeed, this is precisely the logic that informs the operations of the World Food Programme, the multilateral authority which has been administering food aid for the last six years. It is a pity that the author should be insufficiently aware of this particular significance of WFP's work. His comments on FAO's Indicative World Plan are also unkind (page 357).

Sushil K. Dey

Land, Livestock and Human Nutrition in India by R.O. Whyte.
Frederick A. Praeger (Special Studies in International Economics and Development). New York, 1968 (p. 309). $16.50.

Theory and policies of development

by Celso Furtado

Celso Furtado is a Brazilian economist who teaches at the Paris University. His latest book, "Teoria y Politica del Desarrollo Economico," is intended as a text book on economic development for the student of underdeveloped countries, and includes parts of an earlier work on the subject.

Now, development is a historical process wherein location in time occupies a fundamental place. Simultaneously, the study of this process should be directed toward investigation of certain basic, historically determined laws which govern the evolution of an economic system, which cannot be confined to a mere description and accumulation of statistical precedents. The historical and analytical methods must therefore combine to provide a global vision — and one sustained by certain principles of reality.

This is the methodological approach used by the author, embodied in the works's five parts. The first analyses the theory of development in economic science, starting with the ideas of the classic economists to conclude with the most recent, post-Keynesian and neoclassic theories. The second part approaches the development process from an analytic viewpoint, establishing with great acumen the relations between the theory of growth and that of development. In the third part the development process is examined in historical terms, stressing the role played by business in the evolution of the economies which are now in an advanced stage. In the fourth part the problematics of underdevelopment are considered on the basis of an analytico-historical approach, distinguishing the phenomenon of dualism as a basic characteristic of underdeveloped economies. The fifth part is concerned with development policies, and emphasizes the need for planning and carrying out structural reforms without which backwardness cannot be overcome.

Needless to say, the aspects discussed by the author are those of greatest importance in relation to his subject. Nevertheless, any attempt to cover such a broad field in a book of only 318 pages is fraught with serious dangers: an oversimplified view may be presented without adding anything new in relation to the present literature to which, we should not forget, this economist has made significant contribution. We must say that despite some very successful passages and remarkably shrewd observations — for example those criticizing the policy recommended by the International Monetary Fund in Chapter 20 — Furtado has been unable to avoid these risks. Therefore, the discussion will be confined to some general remarks referring to aspects where the weaknesses seem most apparent. The first is in connection with the use of the historical method in the analysis of development, and the second with the concept of dualism which, according to the author, constitutes the basic feature of underdevelopment.

In the third part (see Chapter 11) the development of the industrialized countries is presented from a historical standpoint. Due to the general nature of the treatment, it appears as a homogeneous process in which the most important characteristics must have been present equally in all of those countries. In methodological terms we feel this approach is faulty. If the aim of the chapter had been of an informative-cultural nature, we would have no objections; but they become necessary when history is used with a view to a comparative analysis, i.e., when there is an attempt to draw from it certain conclusions having relevance to the backward countries' viewpoint, which seems to be the purpose of the exposition.

It is a known fact that historical evolution varied significantly from one country to another, and Furtado is undoubtedly aware of it. And, what is more, those variations may be generalized by observing the date when the economic development of the various countries began. Therefore we feel would have been far more interesting examine the most outstanding differenc among the countries where the expansi of capitalism started — e.g., England and those where the take-off was som what delayed — e.g., Japan, Russia (without, of course, falling into ca studies). An emphasis on these aspe would have made it possible to disce the conditions which existed in the comparatively backward economi (which, however, were able to develo directly leading us to consider the pro ability that those conditions may al occur now in the present underdev oped countries.

In the fourth part the author uses t concept of dualism as a defining featu of underdeveloped economies. If dualism we mean the simple differen in the degree of modernization of t techniques employed by different secto — or regions — of the economy, whi seems to be Furtado's intention in certa paragraphs (for example, on page 20 there need be no argument. But if it meant to show that "...the underdevelo ed structures are dualistic systems b cause they are composed of sectors departments governed by different ec nomic criteria" (page 208), then falls into an error which we feel deserv criticism, since it implies there must a kind of autonomy among those secto or departments.

Yet the historical process which ga rise to the structures is a single one, a one only; it does not differ for ea sector. The economy *as a whole* is s within the worldwide structure of ca italism even when the channels throu which this connection is reached becor more widespread and difficult to descri as we move from the more "modern to the more "backward" sectors. Ther fore the *prevailing form of producti* is capitalist, even though there are se tors or regions where the social relatio are of a pre-capitalistic type. It precisely this form of production whic because it is dependent in relation to world economy dominated by a fe large powers and because it contai features corresponding to more bac ward social relationships, acquires sp cific characteristics that distinguish from developed capitalism which d termines the laws of operation a

dynamics *for the economy as a whole*. So that, rather than giving a definition stressing a supposed dualism we feel it would be more appropriate to offer one incorporating the concepts of dependency and heterogeneousness taken both in its technological aspects and in terms of the prevailing social relationships

Despite these weaknesses we have noted, the clarity of the exposition and particularly the undeniable importance of the subjects discussed make this a book to be recommended. Complemented by a suitable bibliography, which does not appear in the text, it can be useful to all those who wish to know the problems of economic development.

Celso Furtado, one of Latin America's most distinguished economists, is a former member of the Economic Commission for Latin America and headed, for a number of years, Brazil's department of Northeastern Development (Superintendencia para el Desarrollo del Noreste). An associate member of the Instituto de Estudios Internacionales de la Universidad de Chile, Santiago, he has written many books, including " Formacaõ Economica do Brasil, " " Desenvolvimiento e Subdesenvolvimiento " and " Dialectica de Desenvolvimiento " which were translated in many languages.

Julio López Gallardo

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Africa's growing pains

an exposé by Stanislav Andreski

The worst is not always inevitable. To prevent it, one must denounce it. The merit of Mr. Andreski's book lies in its exposure of the most perturbing sociological aspects of the young African nations.

The book's insistent leitmotiv is corruption. Corruption of the leaders who, having seized power, grab public funds, honours and jobs for themselves and their followers. Corruption of officials, to whom delegated authority is synonymous with right of plunder. Corruption of big foreign companies, ready to use any means to increase their profits. Corruption of the great powers too, seeking, in their relations with poorer countries, economic and strategic advantages. Corruption, active and passive. Corruption, everywhere.

The author's deep knowledge of Africa, especially western, blends with his experience of Latin America and a political insight into Europe devoid of partisan sympathy.

The growing pains of young nations, he writes, their lack of civic sense, and their poverty make it impossible to establish democratic regimes, so that those who hold power cannot afford to give it up. Racial-tribal ties remain much stronger than national ones.

The author examines the impact of abrupt urbanization in its economic context and its social consequences. Contrary to the slow growth of Europe's cities, those of Africa — or Latin America and perhaps Asia — are a direct result of population increase, which occurs before agriculture has a chance to raise productivity. The towns, compulsc shelters, can hardly supply the neec jobs. They become human — or human — jungles, where the strug for survival supersedes the law. Famil flock to the cities, driven by poverty a drawn by visions of jobs and an eas life. The balance and survival patte of tribal life are destroyed. Destitutic prostitution and often crime are uneasy price of urban growth.

Technical assistance, whether bilate or international, is not spared in t sweeping indictment which leaves lit room for hope.

The task of developing, or even gc erning poor countries is a difficult o Harsh criticism is useful, and ev essential but when it is too negative defeats its own purpose and may interpreted by a jaundiced reader as expression of nostalgia for an obsol era outdistanced by history.

R. Aubrac

The African Predicament by Stanislav Andres Michael Joseph, London, 1968 (237 p.) 50

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The table below shows progress to date.

Completed reports:	Afghanistan, Chile, Ghana, Guatemala, Indonesia, Kenya, Morocco and Turkey
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